

Ernst & Whinney 1981 Financial Reporting Trends Banking

A survey of banking industry accounting practices
as disclosed in 1980 published financial reports.



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Foreword

This publication reviews financial disclosures made in the annual reports of many of the nation's 500 largest banks. Selected significant changes or trends in reporting practices are discussed and examples of each are provided. These examples are taken directly from the surveyed company's annual reports. Also, Chapters 1 and 2 include examples of a complete balance sheet and income statement which have been extracted from our publication *SEC Annual Reports—Banking Industry Supplement—1981*.

The banks whose reports are included in our survey are 194 of the top 200 by deposit size as of December 31, 1980 and 65 randomly selected banks from those in the range of 201 to 500 by deposit size as published in the *American Banker*. Six banks in the top 200 were excluded from the data because their reports were not available at the time of our survey. Reports analyzed were those of individual commercial banks, holding company banks which issued separate reports, and holding companies. Because several banks owned by holding companies did not publish separate annual reports, 250 reports were analyzed this year.

Appendix I lists the banks included in the survey, and Appendix II shows the company reports analyzed.

Aggregate Financial Data for the Companies in the Survey (in millions)

	Commercial Banks ¹	Holding Companies	Total 1981 Survey Companies	Total 1980 Survey Companies ²
Assets	\$101,552	\$1,253,661	\$1,355,213	\$1,206,114
Loans	57,328	698,327	755,655	688,524
Deposits	81,312	919,606	1,000,918	915,738
Total interest income	9,675	119,739	129,414	109,149
Income before security transactions	707	7,871	8,578	7,780
Net income	704	7,540	8,244	7,412

¹Excludes banks owned by holding companies when both the bank and the holding company reports are in the survey.

²Taken from "Financial Reporting Trends—Banking 1980".

The tables in the following sections are shown in percentages. Unless the number of companies covered by the percentages is listed separately, the percentages are always based on the following:

	81	80
Commercial banks	60	53
Holding companies	190	193
Total	250	246

The survey company data is shown by type of company only if significant differences were found.

For simplicity the following titles have been used throughout this publication in place of those used by the reporting entity:

Balance sheet

Statement of income

Statement of changes in shareholders' equity

Statement of changes in financial position

Notes to financial statements or footnotes

The analysis of published annual reports was generally confined to the formal financial statements. In most cases, if the survey item was not disclosed in the financial statements, it is not included in the analysis even though it may have been mentioned elsewhere in the annual report. Exceptions are clearly identified in the text or tables.

References to notes to financial statements have been omitted in the examples if the omissions do not affect the example in relation to the purpose of the survey. Company names are as they appear in the annual report except "the" has been eliminated when it is the first word in the name.

Ernst & Whinney has a substantial interest in and commitment to the banking industry, and this report has been prepared by us as a service to the banking industry. Of the 250 companies included in the 1980 survey, 60 are audit clients of our firm.

Additional copies of the 1981 edition of Financial Reporting Trends—Banking and copies of other E&W banking publications such as those listed below may be obtained from the Ernst & Whinney office that serves you or by writing to M.C. Nelson, Ernst & Whinney, 2000 National City Center, Cleveland, Ohio 44114.

Other Ernst & Whinney Banking Publications:

Banking Bulletin Provides up-to-date information on regulatory, accounting and tax developments which impact the banking industry.

Bank Regulatory Financial Reporting & Disclosure Summary Summarizes the financial reporting and disclosure requirements of regulatory filings which include financial statements of banks reporting under the Securities Exchange Act of 1934 and holding companies reporting under the Bank Holding Company Act of 1956.

Current and Emerging Accounting and Financial Reporting Issues—Banking—Executive Summary Summarizes current and emerging issues which directly affect the banking industry.

Evaluating Internal Control: Banking/A Guide for Management and Directors Provides a practical approach to documenting and evaluating systems of internal accounting control that results in clear, easy to understand statements of how your bank or bank holding company can achieve a more sound system of controls.

SEC Annual Reports—Banking Industry Supplement Provides a reference to be used when preparing much of the financial discussion and data for inclusion in Form 10-K's and annual shareholders reports.

Financial Reporting Developments Provides in-depth coverage of all significant requirements or proposed requirements of the SEC, FASB, AICPA or other rule-making bodies. Special mid-year and year-end issues offer summary analyses of developments for the year to date. Frequently these discuss matters of particular interest to banks.

Ernst & Whinney Banking Committee
September, 1981

CHAPTER 1

Balance Sheet

Format—Fourth Bank Corporation

The following balance sheet of Fourth Bank Corporation and Subsidiaries has been extracted from E&W's *SEC Annual Reports—Banking Industry Supplement—1981*. It is an example of the general format of balance sheets presented in the annual reports to shareholders which were included in this year's survey. It is presented as an example only and not as a standard form to be followed by all banks.

FOURTH BANK CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

	December 31			December 31	
	1985	1984		1985	1984
	(Thousands of dollars)			(Thousands of dollars)	
ASSETS			LIABILITIES		
Cash and due from banks:			Domestic deposits:		
Interest bearing deposits	\$ 476,299	\$ 463,283	Demand	\$ 929,547	\$ 858,559
Cash and non-interest bearing deposits	137,829	130,879	Savings	460,056	441,108
TOTAL CASH AND DUE FROM BANKS	614,128	594,162	Time	755,385	676,611
Investment securities (market value--\$286,443 at December 31, 1985; \$290,338 at December 31, 1984)	386,137	389,494	Deposits in foreign banking offices	328,000	285,000
Trading account securities (market value--\$34,586 at December 31, 1985; \$72,730 at December 31, 1984)	34,197	72,383	TOTAL DEPOSITS	2,472,988	2,311,278
Federal funds sold and securities purchased under agreements to resell	3,042	17,624	Short-term borrowings:		
Loans			Federal funds purchased and securities sold under agreements to repurchase	96,141	104,634
Commercial, financial, and agricultural	869,632	795,996	Commercial paper borrowings	176,754	183,455
Real estate--construction	51,237	47,829	Other	89,013	71,184
Real estate--mortgage	150,368	138,115	Bank acceptances outstanding	361,908	359,273
Installment	646,991	599,994	Accounts payable and accrued liabilities	115,205	109,052
Foreign	344,000	309,000	Capital lease obligations	4,480	4,380
TOTAL LOANS	2,062,268	1,881,934	4% convertible capital notes due 1986	18,338	23,167
Less: Unearned income	(16,925)	(24,361)	TOTAL LIABILITIES	3,029,984	2,859,170
Allowance for loan losses	(41,228)	(34,225)	SHAREHOLDERS' EQUITY		
Direct lease financing	1,994,115	1,823,327	Common stock, par value \$6.75 a share:		
	87,722	87,743	Authorized--10,000,000 shares		
Bank premises and equipment	42,477	41,728	Issued--8,633,400 share in 1985 and 8,427,900 in 1984, including shares in treasury of 165,500 in 1985 and 11,300 in 1984	58,276	56,888
Customers' acceptance liability	56,065	49,820	Capital surplus	109,688	104,449
Other assets	77,761	76,329	Retained earnings	121,654	112,810
			Cost of common stock in treasury (deduction)	(5,958)	(407)
			TOTAL SHAREHOLDERS' EQUITY	283,660	273,740
			COMMITMENTS AND CONTINGENT LIABILITIES		

See notes to financial statements.

Valuation of trading securities

Banks have valued trading securities at cost, market, or lower of cost or market. Article 9 of Regulation S-X requires that the value of these securities be disclosed parenthetically on the balance sheet if they are not carried at market.

In 1980 the number of commercial banks and holding companies reporting trading securities decreased from 1979 levels. Thirty-eight percent (45% in 1979) of the commercial banks and 65% (68% in 1979) of the holding companies disclosed that they had trading securities.

The number of surveyed companies valuing trading portfolios at market increased in 1980, although the principal method of valuation is lower of cost or market. Fifty-six percent (53% in 1979) of the surveyed companies valuing trading securities at either cost or lower of cost or market disclosed the market value of their portfolios, either in the footnotes or parenthetically on the balance sheet.

Table 1. Trading Securities

	80	79
Reports disclosing trading securities in which the securities were shown on the basis of:		
Cost	1%	2%
Lower of cost or market	63	69
Market	33	28
	97	99
Basis not disclosed	3	1
	100%	100%
Number of reports disclosing trading securities	147	156

Reports disclosing trading securities which disclosed the following policies:

	Commercial Banks		Holding Companies	
	80	79	80	79
Carrying basis	43%	40%	62%	65%
Method of determining cost of sales	7	13	23	25
Method of accounting for gain (losses) on sales	25	15	45	31
Method of accounting for income earned while holding	10	13	25	21

Restructured debt

FASB Statement No. 15 "Accounting by Debtors and Creditors for Troubled Debt Restructurings" applies to debt restructurings in troubled situations.

Under the Statement, a modification of the terms of a debt to reduce cash payments or extend the payment schedule would not result in a gain to the debtor or a loss to the creditor unless future cash flows (principal and interest *combined*) are less than the carrying amount of the payable and recorded investment in the receivable, respectively, prior to the restructuring. If cash flows are less, the difference would be a gain to the debtor and a loss to the creditor; neither would recognize interest expense or income, respectively, after the restructuring.

Debt satisfied in full by the transfer of receivables, real estate, or other assets, or by the granting of an equity interest, would result in the debtor realizing a gain and the creditor a loss to the extent that the carrying amount of the payable settled and recorded investment in the receivable satisfied exceeded the fair market value of the assets transferred or equity interest granted. The debtor also would realize a gain or loss for any difference between the carrying amount of the assets transferred and their fair market value.

Disclosures of troubled debt restructurings are required by creditors as of the date of each balance sheet.

The following table indicates the comparative percentages of surveyed companies which disclosed information about restructured debt and the types of disclosures made. In 1980 approximately 94% (86% in 1979) of the disclosures related to loans and 6% (14% in 1979) related to investment securities.

Table 2. Restructured Debt

	Commercial Banks		Holding Companies	
	80	79	80	79
Reports that:				
Disclosed amount of restructured debt	18%	19%	40%	39%
Did not disclose amount of restructured debt	82	81	60	61
	100%	100%	100%	100%
Reports disclosing restructurings that included:				
The aggregate investment in modified loans	83%	80%	92%	80%
The amount of interest income recognized	63	60	75	71
The amount of interest income which would have been recognized under original terms	63	60	74	70
Commitments of additional funds to restructured debtors	13	60	41	45

Nonaccrual loans

Table 3 indicates companies disclosing the amount of nonaccrual loans in the notes to financial statements. It indicates the percentages of surveyed companies that also disclosed the amount of interest income recognized and the amount that would have been recognized under original terms of these loans. Forty-eight percent of the surveyed companies in 1980 (38% in 1979) combined the disclosure relating to nonaccrual loans with that relating to restructured debt. Three percent of the surveyed holding companies disclosed information regarding specific problem loans or groups of loans.

Table 3. Nonaccrual Loans

	Commercial Banks		Holding Companies	
	80	79	80	79
Reports disclosing amount of:				
Nonaccrual loans	45%	47%	56%	61%
Interest income recognized from such loans	28	30	42	41
Interest income that would have been recognized under the original terms of such loans	32	32	42	45

Borrowings

In 1980, 84% (75% in 1979) of the surveyed companies included a footnote presenting short-term borrowings information. Table 4 summarizes information included in footnotes disclosing short-term borrowings information.

Table 4. Short-Term Borrowings Footnote Disclosure

	Commercial Banks		Holding Companies	
	80	79	80	79
Reports with a short-term borrowings footnote that disclosed the following:				
Compensating balance arrangements	12%	11%	36%	38%
Average interest rate in effect during period	85	67	93	90
Average interest rate in effect at year-end	67	50	79	77
Average debt outstanding during period	85	67	93	90
Maximum debt outstanding during period	85	56	94	91
Lines of credit supporting short-term borrowings	15	39	57	59
Number of reports included in this table	33	18	177	167

Approximately 89% of the surveyed companies in both 1980 and 1979 had long-term debt. The components of long-term debt were disclosed in the notes to the financial statements by 91% (69% in 1979) of these companies while 9% (31% in 1979) made this disclosure on the balance sheet.

Both the SEC and the federal bank regulators include in their securities disclosure rules a requirement to disclose aggregate long-term debt maturities and sinking fund requirements for each year of the five years following the date of the balance sheet. Of those companies having long-term debt which were included in the 1980 survey, 76% of the commercial banks and 84% of the holding companies made this disclosure.

Table 5 indicates that most commercial banks and holding companies included subordinated or capital notes and debentures in the liabilities section of the balance sheet in accordance with Article 9.

Table 5. Subordinated or Capital Notes and Debentures

	Commercial Banks		Holding Companies	
	80	79	80	79
Reports with subordinated or capital notes and debentures which disclosed them in the:				
Liabilities section	72%	69%	97%	92%
Between liabilities and equity section	28	31	3	8
	100%	100%	100%	100%

Integrated reports

The SEC permits annual shareholders reports to be combined with the requirements of Form 10-K and to be filed with the Commission in lieu of preparing a separate Form 10-K and annual shareholders report. Guide 4 ("Integrated Reports to Shareholders") of the "Guides for Preparation and Filings of Reports and Registration Statements under the Securities Exchange Act of 1934" lists several conditions which must be satisfied when integrating the annual shareholders report with Form 10-K:

1. The report must contain all the information required by Form 10-K, including the cover page and required signatures. A cross-reference sheet should be included indicating the location of information required by the items of the Form. When responses to certain items of the Form are separated within the report, an appropriate cross reference should be made.

2. Any pictorial or graphic representations should comply with the provisions of Guide 8 of the "Guides for Preparation and Filing of Registration Statements under the Securities Act of 1933", which allows for photographic reproductions of management, principal properties, or important products where they do not create a misleading impression. However, artists', engineers', or architects' conceptions are not permissible because they may be misleading.
3. The report should contain a disclaimer of any action by the SEC to approve or disapprove the report or to pass upon its accuracy or adequacy.

Information contained in integrated annual reports, other than that required by the Form 10-K instructions, is not deemed "filed" for purposes of liability under Section 18 of the 1934 Act.

Integrated reporting rules were followed by 12% of the surveyed holding companies in 1980.

6 Balance Sheet

EXAMPLES Trading securities at market (complete securities section of summary of accounting policies)

CONTINENTAL ILLINOIS CORPORATION

Securities

Investment securities are stated at cost, adjusted for amortization of premiums and accretion of discounts. Net gains or losses on the sale of investment securities other than equity investments are determined by using the average cost and are shown separately as security gains or losses. Equity securities held for investment are discussed above under Basis of Presentation.

Trading account securities are carried at market in the statements of condition. The trading account inventory is maintained primarily in connection with the Bank's operations as a primary dealer in U.S. Government and state, county and municipal debt obligations, buying and selling for its own account. Purchases and sales of trading account securities are considered to be a normal part of operations. Trading account securities are valued to market monthly, and these adjustments, along with the results of normal day-to-day transactions, are included in security trading profits and commissions.

Transfers of securities are not permitted between the trading account and the investment portfolio.

AMERICAN SECURITY CORPORATION

Securities

Investment securities other than marketable equity securities are carried at cost plus unamortized premiums and less unaccreted discount. Premiums, which serve to reduce the stated yields on securities, are amortized to the earlier of the call dates or maturity dates of the securities. Discounts, which serve to increase the stated yields, are accreted to maturity dates. Gains and losses on investment securities are determined based on the carrying values of specific securities and are shown net of applicable income taxes in a separate line of the Consolidated and Parent Corporation Only Income Statements. Marketable equity securities, included in other securities in the financial statements, are carried at the lower of cost or market. A valuation allowance is established by a charge to stockholders' equity to adjust the carrying value of the securities downward to market value when less than cost.

Trading account securities represent the Bank's inventory of short-term investments in U.S. Government and state and municipal obligations, which the Bank buys and sells for its own account. Interest revenues, less interest expense on short sales, are included in interest revenues, and trading gains or losses on sales are recorded in other revenues.

Trading account securities are carried at market in accordance with industry practice. Adjustments to market value are included in other revenues.

EXAMPLES Trading securities at lower of cost or market (summary of accounting policies)

ALLIED BANCSHARES, INC.

Trading Account Securities

Trading account securities are reported at the lower of cost or current market. Trading account profits are included in other operating revenue in the consolidated statements of earnings. Trading profits reflect gains or losses on the sale of, and valuation adjustments to, the carrying value of trading account securities. The basis of securities sold is determined by specific identification.

INDUSTRIAL VALLEY BANK AND TRUST COMPANY

Securities

Securities are held for both investment and trading purposes. Purchases and sales of investment securities are recorded on settlement date. Generally, investment securities are stated at cost adjusted on a straight-line basis for amortization of premium and accretion of discount except for equity securities which are reflected in total at the lower of cost or market, with the appropriate adjustment applied to retained earnings. The affiliates' equity securities are reflected at market value. Gains and losses upon disposition are shown separately in the Consolidated Statements of Income.

Trading securities are carried at the lower of cost or market and are recorded on settlement date for financial reporting purposes and on trade date for tax purposes. Commitments to buy or sell trading securities in the future are recorded on trade date and are carried at market value. Realized and unrealized gains or losses are included in trading account gains or losses.

LASALLE NATIONAL BANK

Securities

Securities held for investment purposes are carried at cost, adjusted for amortization of premiums and accretion of discounts. Trading account securities are carried at the lower of cost or market value.

Gains or losses on the sale of trading account securities are considered to be a normal part of operations and are reported as part of other operating income. Gains or losses on the sale of investment securities are shown separately in the Statement of Earnings.

CITIZENS FIDELITY CORPORATION

Securities

Investment securities are stated at cost, adjusted for amortization of premiums and accretion of discount computed by the straight-line method. The adjusted cost of the specific security sold is used to compute gains or losses on the sale of investment securities.

Trading account securities are generally stated at the lower of cost (first-in, first-out method) or market. Interest earned is included in interest income and gains or losses and commissions and fees on the sale of these securities are included in trading account income.

EXAMPLES Trading securities at lower of cost or market (balance sheet)

DEPOSIT GUARANTY CORP.

	1980	1979
Investment securities (Market value: 1980- \$348,820,984; 1979- \$296,991,272)	\$397,894,367	\$318,884,427
Trading account securities (Market value: 1980-\$1,604,517; 1979- \$7,571,826)	1,589,839	7,560,090

FIRST CAPITAL CORPORATION

	1980	1979
Investment securities with aggregate market value of \$209,633,546 (1980) and \$207,235,086 (1979)		
U.S. Treasury and other U.S. Govern- ment agencies	\$ 81,723,303	\$ 82,239,549
Obligations of states and political sub- divisions	145,947,743	132,033,492
Other securities	4,206,847	3,827,847
Trading account securities (market value \$9,999,489 (1980) and \$3,976,049 (1979))	9,999,489	3,764,426

8 Balance Sheet

EXAMPLES Non-performing loans (loan or allowance for loan losses footnote)

CENTRAL PENN NATIONAL CORP.

Loans

The following is a table of loans by category as of December 31, 1980 and 1979:

	1980	%	1979	%
Commercial	\$263,566,000	50.2	\$261,608,000	52.3
Real estate-construction	31,353,000	6.0	13,192,000	2.6
Real estate-mortgage	129,011,000	24.6	112,889,000	22.5
Installment	97,221,000	18.5	104,897,000	21.0
Foreign	4,051,000	.7	8,000,000	1.6
Total	<u>\$525,202,000</u>	<u>100.0</u>	<u>\$500,586,000</u>	<u>100.0</u>

Loans accounted for on a non-accrual basis and loans, the terms of which have been renegotiated, were as follows:

	December 31, 1980		December 31, 1979	
	Non- Accruing	Re- negotiated	Non- Accruing	Re- negotiated
Commercial	\$ 6,482,000	\$1,769,000	\$ 9,886,000	\$3,469,000
Real estate-construction	1,990,000	-	2,465,000	-
Real estate-mortgage	1,565,000	728,000	248,000	477,000
Installment	918,000	43,000	505,000	43,000
Foreign	-	-	-	-
Total	<u>\$10,955,000</u>	<u>\$2,540,000</u>	<u>\$13,104,000</u>	<u>\$3,989,000</u>

In addition, loans past due 90 days or more which still were being carried in an accrual status totaled \$371,000 at December 31, 1980 and \$125,000 at December 31, 1979.

HERITAGE BANCORPORATION

Loans and Reserve for Loan Losses

An analysis of the loan portfolio at December 31, 1980 and 1979 follows:

	(\$000 omitted)	
	1980	1979
Consumer Credit	\$250,938	\$264,452
Real estate mortgages	241,220	244,331
Construction and land development	52,256	59,780
Business and others	<u>347,544</u>	<u>317,471</u>
	891,958	886,034
Less: Unearned discount	(29,964)	(29,806)
Reserve for loan losses	<u>(11,941)</u>	<u>(10,685)</u>
Net loans	<u>\$850,053</u>	<u>\$845,543</u>

The following is a summary of loans on which interest is not on the accrual basis and loans secured by real estate on which interest is contractually related in whole or in part to the cash flow from the operations of the underlying property.

	(\$000 omitted)			
	1980		1979	
	at Dec. 31	Average for the year	at Dec. 31	Average for the year
Non-accrual loans				
Real estate	\$ 4,850	\$ 5,504	\$ 6,106	\$ 6,916
Commercial	3,597	3,853	2,130	1,804
Contractual cash basis loans	10,603	10,206	7,115	7,671
	<u>\$19,050</u>	<u>\$19,563</u>	<u>\$15,351</u>	<u>\$16,391</u>

An analysis of the reserve for loan losses for the years 1980, 1979 and 1978 follows:

	(\$000 omitted)		
	1980	1979	1978
Balance at beginning of year	\$10,685	\$ 8,511	\$ 8,520
Provision charged to operating expenses	4,400	4,236	1,573
Recoveries	712	631	424
	<u>15,797</u>	<u>13,378</u>	<u>10,517</u>
Loans charged off	(3,856)	(2,693)	(2,006)
Balance at end of year	<u>\$11,941</u>	<u>\$10,685</u>	<u>\$ 8,511</u>

FLORIDA NATIONAL BANKS OF FLORIDA, INC.

Loans and Non-Performing Assets

A comparative summary of consolidated total loans at December 31, 1980 and 1979, respectively, follows:

(dollars in thousands)	1980	1979
Commercial, financial and agricultural	\$ 309,560	\$279,064
Real estate-construction	18,846	29,647
Real estate-mortgage	392,227	313,601
Installment	311,838	329,553
Total	<u>\$1,032,471</u>	<u>\$951,865</u>

Included in the above comparative summary are loans to executive officers, directors and principal stockholders of the Company, and its principal subsidiaries amounting to \$35,781,000 at December 31, 1980 and \$42,544,000 at December 31, 1979.

Non-performing assets include non-performing loans and other real estate owned. Non-performing loans are defined by the Company as those loans on which income is recognized on the cash basis (non-accrual loans) rather than on the accrual basis, those on which the yield has been substantially reduced because of credit deterioration (renegotiated loans), and loans which are 90 days or more past due (past due loans). Non-performing loans are included in loans in the Consolidated Balance Sheets, whereas other real estate owned is a separate classification. Following is a table classifying non-performing assets by type and summarizing the effect on interest income:

(dollars in thousands, except per share data)	Non-accrual Loans	Renegotiated Loans	Past Due Loans	Other Real Estate Owned
December 31, 1980 and the year then ended:				
Amount of non-performing assets	\$2,017	\$9,332	\$3,378	\$4,488
Interest at contractual rates	182	1,772	-	-
Interest recorded as income	59	648	-	-
Reductions of earnings per share	\$.01	\$.01	-	-
(dollars in thousands, except per share data)				
December 31, 1979 and the year then ended:				
Amount of non-performing assets	\$3,031	\$11,015	\$1,801	\$6,251
Interest at contractual rates	320	1,953	-	-
Interest recorded as income	57	690	-	-
Reductions of earnings per share	\$.02	\$.02	-	-

As of December 31, 1980 and 1979, the Company was not committed to lend any material funds to debtors whose loans were non-performing.

10 Balance Sheet

MELLON NATIONAL CORPORATION

Loans

Loans outstanding, net of unearned discount, are as follows:

(in millions)	December 31, 1979	1980
Domestic operations:		
Commercial and financial (excluding real estate):		
Commercial and industrial	\$2,469	\$2,851
Financial institutions (excluding real estate investment trusts)	399	457
Real estate investment trusts	6	1
Other	109	231
Consumer (excluding real estate):		
Banking subsidiary	880	855
Consumer finance subsidiary	112	97
Real estate:		
Commercial construction	216	282
Mortgage:		
Commercial	280	286
Consumer	833	905
Other	173	185
Total domestic operations	5,477	6,150
International operations (see note 18 for details)	1,410	1,832
Total loans, net of unearned discount	\$6,887	\$7,982

Included in loans were \$5,362,000 and \$173,000 at December 31, 1979 and 1980, to companies 20-50% owned by the Corporation or its subsidiaries.

Information on nonperforming assets is as follows:

(in thousands)	December 31, 1979	1980
Outstanding amounts at year-end:		
Cash-basis commercial loans	\$ 77,151	\$ 91,065
Reduced-rate commercial loans	3,799	3,347
Other nonperforming assets (included in other assets)	51,958	31,987
Total	<u>\$132,908</u>	<u>\$126,399</u>

EXAMPLES Non-performing loans (separate footnote)

RAINIER BANCORPORATION

Nonperforming Loans

Certain information relating to reduced-earning and non-earning loans at December 31 is as follows:

	1980	1979	1978
	(In Thousands of Dollars)		
Total reduced-earning and non-earning loans at year-end:			
Commercial	\$28,430	\$15,950	\$11,100
Agricultural	6,094	3,513	2,174
Construction and Land Development	523	1,922	280
Mortgage	3,918	374	837
Consumer Instalment	14,278	9,824	7,607
Consumer Credit Card	2,572	3,265	3,214
Foreign Banking Offices	3,846	2,950	4,486
Total	<u>\$59,661</u>	<u>\$37,798</u>	<u>\$29,698</u>
Gross income that would have been recorded for the year if interest income were recognized based on the original terms	<u>\$ 6,020</u>	<u>\$ 3,857</u>	<u>\$ 2,286</u>
Amount of interest income actually recognized on such loans during the year	<u>\$ 4,646</u>	<u>\$ 3,128</u>	<u>\$ 2,063</u>

PHILADELPHIA NATIONAL CORPORATION

Non-performing assets

The following is an analysis of non-performing assets at December 31, 1980 and 1979 (substantially all Bank and subsidiaries). For purposes of this analysis, real estate acquired through foreclosure or exchange (which is included in other assets in the financial statements) is included, since these assets were received in satisfaction of non-performing loans. Generally, they are not producing income.

	December 31, 1980	1979
Cash basis loans (interest income recognized as received):		
Real estate investment trusts	\$ 4,332	\$ 8,811
Other real estate related	7,688	4,493
Foreign loans	8,209	10,192
Other loans	7,781	9,167
Total cash basis	<u>28,010</u>	<u>32,663</u>
Renegotiated loans (rate formally renegotiated below the Bank's prime):		
Real estate investment trusts	4,559	8,857
Other real estate related	35,710	38,003
Other loans	2,942	4,709
Total renegotiated	<u>43,211</u>	<u>51,569</u>
Total non-performing loans	<u>71,221</u>	<u>84,232</u>
Real estate acquired through foreclosure or exchange	5,275	3,859
Total non-performing assets	<u>\$76,496</u>	<u>\$88,091</u>

At December 31, 1980, foreign loans included \$6.2 million in Nicaragua and \$1.9 million in Iran.

Not included in non-performing assets at December 31, 1980 and 1979 are approximately \$2.0 million of overdrafts receivable from Food Fair, Inc. (currently in bankruptcy proceedings).

The effect of non-performing loans on both interest income and net interest income for the year ended December 31, 1980, 1979 and 1978 is as follows:

	Year Ended December 31, 1980	1979	1978
Interest income due on non-performing loans in accordance with their original terms	\$13,730	\$11,885	\$9,078
Interest income on non-performing loans reflected in total operating income	<u>4,799</u>	<u>3,463</u>	<u>2,714</u>
Net reduction in interest income	<u>\$ 8,931</u>	<u>\$ 8,422</u>	<u>\$ 6,364</u>

The yield on average non-performing assets was 5.66% in 1980, 4.01% in 1979 and 2.35% in 1978.

Loans, excluding loans to individuals, which were past due 90 days or more as to interest or principal payments were \$30 and \$36 million at December 31,

1980 and 1979, respectively. Consumer loans amounted to \$362 and \$387 million at December 31, 1980 and 1979. Of this amount, 1.3% and 1.4% at December 31, 1980 and 1979, respectively, were past due 90 days or more as to interest or principal payments.

AMERITRUST CORPORATION

Nonperforming Assets

Nonperforming assets at December 31 were as follows:

	1980 (in thousands)	1979
Nonperforming loans:		
Loans on nonaccrual	\$83,821	\$50,773
Loans which are contractually past due 90 days or more as to principal or interest but not on nonaccrual	5,682	3,867
Renegotiated loans which are not on nonaccrual and not past due 90 days or more as to principal or interest	5,404	4,827
	<u>94,907</u>	<u>59,467</u>
Real estate received in complete or partial satisfaction of loan obligations	4,946	3,158
	<u>\$99,853</u>	<u>\$62,625</u>

The effect of nonperforming loans on interest income for the three years ended December 31 was as follows:

	1980 (in thousands)	1979	1978
Interest income due on non-performing loans in accordance with the original terms	\$7,600	\$3,400	\$3,900
Interest income on non-performing loans reflected in total operating income	<u>1,700</u>	<u>800</u>	<u>1,300</u>
Net reduction in interest income	<u>\$5,900</u>	<u>\$2,600</u>	<u>\$2,600</u>

At December 31, there were no significant commitments to lend additional funds to debtors whose loans were considered to be nonperforming.

12 Balance Sheet

MANUFACTURERS NATIONAL CORPORATION

Nonaccrual and Reduced-Rate Loans

Loans on which interest is not being accrued (under the accounting policies described in Note A) and loans on which the original contractual interest rate has been reduced because of the borrowers' weakened financial condition approximated 0.7% and 0.6% of the Corporation's consolidated loans at December 31, 1980 and 1979, respectively. Information regarding these loans is as follows:

Aggregate recorded loan balances at December 31
Interest income which would have been recorded under the
original contractual terms
Interest income recorded

1980		1979	
Nonaccrual Loans	Reduced- Rate Loans	Nonaccrual Loans	Reduced- Rate Loans
\$10,717,000	\$9,887,000	\$10,672,000	\$4,919,000
\$ 1,721,000	\$ 705,000	\$ 1,872,000	\$ 643,000
\$ -	\$ 358,000	\$ -	\$ 181,000

UNITED VIRGINIA BANKSHARES INCORPORATED

Non-Performing Assets

Non-performing assets include non-performing loans and foreclosed properties. Non-performing loans include those loans on which income is recognized on the cash basis (non-accrual loans) and those on which the yield has been reduced substantially because of credit deterioration (reduced-earning loans). Non-performing loans are classified as loans in the accompanying balance sheets. In addition to the loans classified as non-accrual at December 31, 1980, there were \$8.6 million of loans past due 90 days or more. Approximately one third of these loans were commercial loans expected to be brought current or to be paid in full. The remaining past due loans were primarily instalment and bank card loans subject to consistently applied charge-off procedures (note 1d). Foreclosed properties are included in other assets.

The amounts of non-performing assets are as follows:

\$ in thousands	December 31,	
	1980	1979
Non-accrual loans	\$23,623	\$28,308
Reduced-earning loans	1,820	2,105
Total non-performing loans	25,443	30,413
Foreclosed properties	3,895	4,165
Total non-performing assets	\$29,338	\$34,578
Average non-performing loans for the year	\$28,059	\$29,457
Average non-performing assets for the year	\$32,188	\$34,069

The aggregate recorded investment in non-performing loans outstanding at December 31, 1980, 1979 and 1978, the pro forma interest income that would have been earned in 1980, 1979 and 1978 if such loans had not been classified as non-performing and the amount of interest actually included in net income for those years are as follows:

\$ in thousands	Non-Performing Loan Category				
	Commercial	Real Estate- Construction	Foreign	All Other	Total
1980:					
Recorded investment	\$15,911	\$2,883	\$4,851	\$1,798	\$25,443
Pro forma interest	1,859	534	629	202	3,224
Interest earned	313	153	2	121	589
1979:					
Recorded investment	\$18,594	\$4,915	\$4,888	\$2,016	\$30,413
Pro forma interest	2,077	816	620	225	3,738
Interest earned	568	368	531	104	1,571
1978:					
Recorded investment	\$18,168	\$6,702	\$ 958	\$ 699	\$26,527
Pro forma interest	1,632	510	87	73	2,352
Interest earned	243	95	7	11	356

Interest income for 1980, 1979 and 1978 also was affected adversely by revenues lost on non-performing loans outstanding at any time during those years. If interest on all such loans had been recorded, based upon original contract terms, addi-

tional pre-tax income amounting to approximately \$3.4 million in 1980, \$3.7 million in 1979 and \$2.5 million in 1978 would have been recognized. Interest income was recognized when cash payments of \$1.2 million in 1980, \$1.1 million in 1979 and \$400 thousand in 1978 were received. The per share effect on net income of net lost revenue was \$.22 in 1980, \$.26 in 1979 and \$.20 in 1978.

There were no material commitments to lend additional funds to customers whose loans were classified as nonperforming at December 31, 1980.

OLD STONE CORPORATION

Non-Performing and Restructured Loans

The following table presents information concerning non-performing and restructured loans carried in the consolidated loan portfolio of Old Stone Corporation at December 31, 1978, 1979 and 1980, respectively. Non-performing loans are loans which are contractually past due 60 days or more as to principal or interest. Restructured loans are loans, excluding non-performing loans, the terms of which have been renegotiated to provide a reduction or deferral of interest or principal because of a deterioration in the financial position of the borrower.

(In thousands)	<u>1980</u>	<u>1979</u>	<u>1978</u>
1. Non-Performing Loans			
Commercial loans:			
Aggregate loan amount at year end	\$2,937	\$ 239	\$1,546
Interest income which would have been recorded on such loans if the loans had been current throughout the year	529	23	209
Interest on such loans included in income during the year	<u>211</u>	<u>9</u>	<u>94</u>
Mortgage loans:			
Aggregate loan amount at year end	2,646	7,003	8,172
Interest income which would have been recorded on such loans if the loans had been current throughout the year	331	755	784
Interest on such loans included in income during the year	<u>237</u>	<u>379</u>	<u>687</u>
2. Restructured Loans			
Aggregate loan amount at year end	165	2,120	1,679
Interest income which would have been recorded on such loans if the loans had been current throughout the year	17	262	132
Interest on such loans included in income during the year	<u>-0-</u>	<u>123</u>	<u>-0-</u>

The Corporation and its subsidiaries are not committed to lend additional funds to any borrower whose loan has been categorized as a non-performing loan or whose loan has been restructured.

14 Balance Sheet

MERCHANTS NATIONAL CORPORATION

Nonperforming Loans and Other Real Estate

The following table presents information concerning certain loans which are contractually past due

	Principal Amount December 31	Percent of Total Assets	Interest Per Original Terms	Interest Realized
1980: Loans Renegotiated at a Reduced Interest Rate	\$ 8,360,350	.4%	\$1,126,039	\$392,515
Loans not Accruing Interest	11,859,148	.5	979,307	-
Other Past Due Loans (1)	2,614,000	.1		
Other Real Estate, Net of Allowance (2)	9,923,356	.4		
1979: Loans Renegotiated at a Reduced Interest Rate	\$ 5,612,034	.3%	\$ 824,279	\$255,666
Loans not Accruing Interest	9,272,607	.5	844,461	-
Other Past Due Loans (1)	9,438,000	.5		
Other Real Estate, Net of Allowance (2)	4,586,580	.3		
1978: Loans Renegotiated at a Reduced Interest Rate	\$ 8,685,141	.5%	\$1,304,187	\$551,996
Loans not Accruing Interest	7,625,637	.5	543,295	39,050
Other Past Due Loans (1)	5,538,000	.3		
Other Real Estate, Net of Allowance (2)	5,249,272	.3		

(1) This classification represents loans which are in default of principal or interest for more than ninety days but in management's opinion are collateralized sufficiently to avoid being placed on a non-accruing status.

(2) Not included in other real estate in 1980, 1979 and 1978 is \$1,760,373, \$1,768,000 and \$1,753,000 for former Bank premises.

Future commitments on renegotiated loans amounted to \$357,544, \$381,715 and \$2,044,000 at December 31, 1980, 1979 and 1978.

EXAMPLES Specific problem loans or groups of loans (footnotes)

CITIZENS AND SOUTHERN GEORGIA CORPORATION

Transactions Related To Southmark Properties

National Bank acted as advisor for Southmark Properties (Southmark), a publicly held real estate investment trust, from its inception in 1970 until the advisory relationship was terminated effective January 2, 1980. Pursuant to the advisory contract National Bank administered the day-to-day operations of Southmark from its inception to March 30, 1979. From January 1976 to June 30, 1979, National Bank waived any right provided in the advisory contract to incentive compensation based on net income of Southmark. However, National Bank received reimbursement of \$293,000 in 1979 and \$2,042,000 in 1978 for its approved costs in rendering advisory services to Southmark.

From 1976 through June 14, 1979, National Bank discussed with Southmark the administration by National Bank of certain transactions involving advances by Southmark. Southmark contended that National Bank had some financial responsibility to Southmark with respect to such transactions. In addition, Southmark requested that National Bank refund certain

ninety days or more as to interest or principal payments; certain loans, primarily real estate developments, which have been restructured or provide a reduction or deferral of interest or principal for reasons related to the debtors' financial difficulties; and other real estate.

management fees paid in 1974 plus interest. Prior to 1978, National Bank and Southmark entered into several settlement agreements to resolve certain of the disputes. During 1978 National Bank provided \$1,850,000 for losses related to such disputes, which increased the reserve for loss at December 31, 1978 to \$2,700,000. As of February 9, 1979, the date of the independent auditors' report on the consolidated financial statements for 1978, negotiations concerning possible settlement of disputes between National Bank and Southmark were continuing, and the ultimate loss which National Bank might incur as a result of such negotiations was not then determinable.

In the first quarter of 1979, National Bank provided an additional \$1,100,000 by charges to earnings, which increased the reserve to \$3,800,000. In June 1979, National Bank entered into a general settlement agreement with Southmark in which National Bank and Southmark exchanged general releases, except that each did not release the other from any claims by third parties nor from certain existing relationships. In connection with the general settlement agreement, Southmark assigned to National Bank the proceeds from certain lawsuits with third parties. In the third quarter of 1979, National Bank received payments from these parties in the amount of \$495,000. Such payments were credited to the reserve, increasing it to \$4,295,000. On December 31, 1979, National Bank paid \$4,100,000 to Southmark in connection with the general settlement agree-

ment. This payment reduced the reserve for loss at December 31, 1979 to \$195,000. During the quarter ended March 31, 1980, management reviewed its existing relationship with Southmark and concluded that a reserve for loss was no longer necessary and reversed the remaining reserve to income.

In 1978, the credit agreements which Southmark had with its bank creditors, including the National Bank, were superseded by the Term Loan Agreement. The Agreement provided that the indebtedness would mature on September 30, 1979; however, there would be three automatic one-year extensions of the maturity date if amortization requirements during the initial term and each subsequent renewal were met. Southmark met the amortization requirement for the periods ended September 30, 1979 and 1980. Any debt remaining outstanding on September 30, 1982 was scheduled to be paid in full on that date. Under the Agreement, interest on the debt to National Bank accrued at the rate of 1% per annum.

In November 1980, when the indebtedness of Southmark to National Bank was \$5,620,000, Southmark entered into a new agreement with its creditor banks in which the creditor banks agreed to accept a payment of 90% of the outstanding indebtedness as payment in full. As a result of this agreement, the National Bank charged off \$562,000 of its indebtedness from Southmark in November 1980, and received a payment of \$1,087,000. In March 1981, National Bank is scheduled to receive an additional payment for the remaining balance of \$3,971,000.

National Bank and Southmark also agreed to forgive all claims either had against the other except for claims which may result from future litigation against Southmark for which the loss incurred by Southmark exceeds \$5,000,000 with respect to a claim.

In connection with the general settlement agreement in 1979, National Bank reaffirmed a loan commitment it had made in a 1977 settlement agreement. Under this commitment, Southmark could have required National Bank, during the period January 1, 1982 to March 31, 1983, to make first mortgage loans, aggregating \$15,000,000, which would amortize over approximately 24 years and bear interest at the lower of 9-1/4% or the market rate for such loans at the time of funding. This commitment to lend \$15,000,000 was reaffirmed in 1980; the terms now require that the loan be funded, at the option of Southmark, after all present indebtedness is repaid but not later than March 31, 1983; the interest rate would be 1-1/2% over prime until January 1, 1982 at which time it would be reduced to 9-1/4%; and the loans would amortize on a 30 year basis with the outstanding balance repayable at the end of ten years.

FARMERS BANK OF THE STATE OF DELAWARE

Loan on Real Estate Project and Other Real Estate

The Bank had advanced in prior years approximately \$5,000,000 on various land loans for a planned community. The loans are nonaccruing and were restructured during 1977.

The Bank has acquired certain residential and commercial zoned sections of the real estate project which secured this loan. The land acquired on this

loan is included in other real estate. During 1980, the Bank charged off \$1,990,000 of the loan to the reserve for possible loan losses. The aggregate carrying basis of the loan and related other real estate for financial reporting purposes was \$2.1 million at December 31, 1980.

The Bank is improving sections of the residential land for sale as individual lots, including the sections in other real estate. Commercial property is also being held for sale.

HERITAGE BANCORPORATION

Related Party Transaction

During the year, the companies have had, and expect to have in the future, banking transactions in the ordinary course of business with many of Heritage's directors and officers and their associates on the same terms, including interest rates and risks of uncollectability, as those prevailing at the time for comparable transactions with others. At December 31, 1980 direct loans to directors and executive officers approximated \$1,575,000. Indirect loans (loans to companies in which directors have at least a 10% interest) approximated \$11,704,000.

There was one transaction, in the opinion of the Board of Directors, which requires special mention. At December 31, 1980, a corporation which is 45% beneficially owned by a Board director was indebted to a subsidiary bank in the amount of \$3,683,000 plus unpaid interest of \$322,000. The loan is on a non-accrual basis. The loan is collateralized by real estate. The borrower's projections, supported by studies of independent consultants, indicate that the marketability of the real estate is such that full repayment of principal and interest accrued to date will be realized by the bank.

CHASE MANHATTAN CORPORATION

Transactions with Iran

On November 14, 1979, Executive Order 12170 and Iranian Asset Control Regulations issued by the United States Treasury Department (the Regulations) blocked property held by persons subject to the jurisdiction of the United States, including U.S. banks and their branches and subsidiaries abroad, in which the Iranian Government or its controlled entities had an interest. At that date the Bank held deposits of the Government of Iran and its controlled entities (Iranian public sector) amounting to \$509 million, and had asset claims against the Iranian public sector in the amount of \$366 million, of which \$343 million was in the form of loans and other credit facilities. After the issuance of the Executive Order the Bank effected a combination and offset of asset and deposit accounts which resulted in the elimination from the Consolidated Statement of Condition of \$366 million, which was the amount of the asset claims. By reason of payments received, reclassification of certain items and expiration of contingent liabilities, such as letters of credit, the amount of the Bank's claims upon the Iranian public sector that would have existed on December 31, 1980 but for the offset was reduced to \$339 million, of which \$315 million would have been for loans and other credit facilities.

(continued)

The excess of the deposit liabilities so offset over the Bank's asset claims, together with other Iranian public sector deposits received after issuance of the Executive Order, are reflected in the Consolidated Statement of Condition within Deposits and Other Liabilities. These amounts, aggregating \$548 million and \$446 million at December 31, 1980 and December 31, 1979, respectively, were on such dates being held for offset, subject to issuance of licenses under the Regulations, against claims of the Bank and other lenders under syndicated loan agreements containing offset sharing clauses. Interest expense at market rates was accrued through December 31, 1980 on only the net balances payable after giving effect to the offset. No income was accrued for the period ending December 31, 1980 on the offset asset claims.

The validity and effect of the Bank's combination and offset of asset and deposit accounts, as well as the application of the Regulations to U.S. dollar deposits outside the United States, have been challenged in legal proceedings brought against the Bank in England in which the Central Bank of Iran has demanded repayment of an aggregate of \$451 million with interest. The Bank, by counter claim in the proceedings in England, and by a separate lawsuit in New York against the Government of Iran and various Iranian public sector entities, has sought a determination that the Bank's combination and offset of accounts was proper or, alternatively, a judgment for damages in the amended amount of approximately \$340 million representing the Bank's asset claims.

A Declaration issued January 19, 1981 by the Democratic and Popular Republic of Algeria, and adhered to by the Governments of the United States and the Islamic Republic of Iran, sets forth certain interdependent commitments made by the two governments to resolve the crisis in their relations. Among other things, the United States agreed to bring about the transfer to the Bank of England, for credit to an account of the Central Bank of Algeria, as Escrow Agent, of all Iranian deposits and securities held on or after November 14, 1979 by overseas offices of United States banks, together with interest thereon through December 31, 1980. Under an Executive Order issued by the President on January 19, 1981, and a U.S. Treasury directive of the same date, the Bank was compelled to cancel the combination and offset of Iranian public sector asset and offshore deposit accounts, and to pay to the account of the Federal Reserve Bank of New York at the Bank of England, for transfer to the Escrow Agent's account, the Iranian public sector deposits held by the Bank at its overseas offices, with interest thereon, in the aggregate amount of \$526 million, and to transfer in a similar manner securities held in custody for the Iranian public sector in the face amount of \$5 million. These transfers were also made in accordance with payment instructions to the same effect received from the Central Bank of Iran. Accordingly, the Bank expects the litigation referred to above to be discontinued with respect to claims made against it for such foreign deposits.

A separate Executive Order issued by the President on January 19, 1981 required the payment to the Federal Reserve Bank of New York, to be held or transferred as directed by the Secretary of the Treasury,

of all Iranian public sector deposits held by the Bank in the United States. Implementing regulations have not been issued, and such deposits are not expected to be paid for some time.

Further to understandings contemplated by the above-mentioned Declaration, the Bank received payment on January 20, 1981 of \$303 million, being the entire unpaid principal balance of syndicated loans which it had extended to Iranian public sector borrowers and ordinary contractual interest thereon to the last interest payment date prior to December 31, 1980. Payment of approximately \$8 million of interest through December 31, 1980 on such loans is expected shortly. Other claims by the Bank against Iran, such as those in respect of nonsyndicated credits and the expropriation of its interests in Iranian banks, remain to be settled, through mutual agreement or arbitration. Such claims include approximately \$74 million in respect of nonsyndicated credits to Iranian public sector borrowers, \$19 million in respect of the expropriation of its interests in Iranian banks, \$11 million in respect of disputed deposit interest and \$2 million for current interest due on syndicated loan claims. The Bank understands that provision has been made by the Governments of the United States and Iran for a \$1.4 billion escrow fund to be used to pay nonsyndicated loan claims against Iranian public sector borrowers held by U.S. banks, as well as disputed principal and interest on Iranian deposits held by such banks, after mutual agreement or arbitral award.

Management is of the opinion that the ultimate determination of the pending legal proceedings mentioned above, and the final settlement of the claims it continues to hold against Iranian public sector debtors, will not have a material adverse effect on the financial condition of the Corporation or the Bank.

EXAMPLES Short-term borrowings (balance sheet--liability section)

BANCOHIO CORPORATION

	December 31, 1980	1979
	(in thousands)	
Deposits:		
Demand	\$1,157,379	\$1,199,451
Savings	1,082,407	1,111,547
Time	1,676,896	1,493,619
Total savings and time	<u>2,759,303</u>	<u>2,605,166</u>
Total deposits	3,916,682	3,804,617
Short-term borrowings	556,851	759,921
Other liabilities	89,648	81,646
Bank acceptances	133,790	50,322
Long-term bank debt (5.65% to 10%, maturing through 2002)	12,588	12,675
Total Liabilities	<u>4,709,559</u>	<u>4,709,181</u>

SECURITY PACIFIC CORPORATION

\$ in thousands	December 31,		Increase (Decrease)
	1980	1979	
Liabilities			
Demand deposits in domestic offices	\$ 6,050,254	\$ 5,790,019	\$ 260,235
Savings deposits in domestic offices	3,330,180	3,222,959	107,221
Time deposits in domestic offices--under \$100,000	2,160,006	1,782,726	377,280
Time deposits in domestic offices--over \$100,000	6,214,325	3,250,449	2,963,876
Total deposits in domestic offices	17,754,765	14,046,153	3,708,612
Deposits in foreign branches and inter- national subsidiaries	3,413,852	4,404,674	(990,822)
Total deposits	21,168,617	18,450,827	2,717,790
Federal funds purchased and securities under repurchase agreements	1,016,728	1,604,345	(587,617)
Commercial paper	1,028,316	863,038	165,278
Other short-term funds borrowed	684,698	928,582	(243,884)
Intermediate-term debt	281,842	86,009	195,833
Long-term debt	365,898	375,276	(9,378)
Acceptances outstanding	1,120,463	817,790	302,673
Accrued interest, taxes and other expense	616,284	469,667	146,617
Other liabilities	341,036	285,441	55,595
Total liabilities	26,623,882	23,880,975	2,742,907

NEW ENGLAND MERCHANTS COMPANY, INC.

(Dollars in thousands)

	December 31,	
	1980	1979
Liabilities		
Deposits:		
In domestic offices:		
Demand	\$ 746,271	\$ 756,121
Savings	241,124	262,384
Time	966,067	763,701
In foreign branch	267,732	285,948
Total deposits	2,221,194	2,068,154
Short-term borrowings:		
Federal funds purchased	105,905	100,385
Securities sold under agreements to repurchase	208,888	171,877
Current portion of notes, debentures and capitalized lease obligations	1,707	1,924
Other	6,350	9,732
Total short-term borrowings	322,850	283,918
Bank acceptances outstanding	74,337	38,547
Accounts payable and accrued liabilities	70,411	72,904
Notes, debentures and capitalized lease obligations	58,592	53,788
Other liabilities and deferred credits	1,765	1,735
Total liabilities	2,749,149	2,519,046

WILMINGTON TRUST COMPANY

	December 31,	
	1980	1979
Liabilities		
Demand Deposits	\$ 383,268,904	\$ 347,542,324
Retail Deposits at Interest:		
Savings Deposits	188,685,102	192,853,331
Money Market Certificates	169,841,313	78,393,620
Certificates Under \$100,000	143,515,078	148,216,495
Total	502,041,493	419,463,446
Managed Liabilities:		
Certificates Over \$100,000	110,238,514	173,957,514
Federal Funds Purchased	652,000	-
Securities Sold Under Agreements to Repurchase	321,672,549	285,551,008
U.S. Treasury Demand	29,861,647	39,420,355
Total	462,424,710	498,928,877
Accrued Interest, Taxes and Other Expenses	32,256,103	24,909,055
4-3/8% Notes Payable	1,116,000	1,326,000
Other	9,589,612	1,972,419
Total	1,390,696,822	1,294,142,121

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EXAMPLES Short-term borrowings (footnotes)

WINTERS NATIONAL CORPORATION

Short-Term Borrowings

The outstanding balances and average interest rates for short-term funds borrowed at December 31 were as follows:

(dollars in thousands)	1980		1979	
	Amount	Rate	Amount	Rate
Federal funds purchased	\$ 81,725	20.90%	\$ 22,650	13.52%
Securities sold under agreement to repurchase	134,718	16.44	58,968	12.45
	<u>216,443</u>		<u>81,618</u>	
Treasury tax and loan	18,537	21.25	28,359	13.78
Commercial paper	1,769	18.32	1,218	13.37
Total	<u>\$236,749</u>	<u>18.37</u>	<u>\$111,195</u>	<u>13.02</u>

Federal funds purchased and securities sold under agreements to repurchase represent borrowing transactions which range from overnight to six months in maturity. In addition to meeting short-term funding requirements of the Corporation's banking subsidiaries, these transactions also arise from market activities for their correspondent banks which include the sale of funds.

The commercial paper with maturities of up to nine months is sold directly to individuals, financial institutions and others.

Treasury tax and loan balances represent funds on deposit by the Treasury Department which the Corporation's banking subsidiaries utilize in their day-to-day activities. These funds are payable upon demand and accrue interest at 1/4 of 1 percent under the then existing federal funds rate. In addition, marketable securities are pledged to secure these deposits.

Average balances of short-term borrowings amounted to approximately \$135,285,000 during 1980 and approximately \$100,963,000 in 1979 with average interest rates of 12.84% and 10.83%, respectively. The highest month-end level of short-term borrowings was \$236,749,000 in 1980 and \$131,048,000 in 1979.

In their day-to-day activities, the banking subsidiaries also sold funds in the short-term markets, averaging approximately \$37,151,000 in 1980 and approximately \$46,564,000 in 1979 with interest rates of 14.09% and 11.20%, respectively.

BANK OF VIRGINIA COMPANY

Short-Term Borrowings

Following is a summary of short-term borrowings for the years ended December 31, 1980 and 1979 (in thousands):

	Maximum Outstanding at Any Month End	Average Outstanding	Weighted Average Interest Rate	Average Interest Rate at Year End
1980				
Federal funds and repurchase agreements	\$231,660	\$171,984	12.6%	19.2%
Commercial paper	145,411	132,961	12.5	16.9
Other	39,702	22,184	14.9	
Total		<u>\$327,129</u>	<u>12.7%</u>	<u>18.5%</u>
1979				
Federal funds and repurchase agreements	\$236,651	\$138,419	11.3%	12.8%
Commercial paper	133,151	111,573	11.0	13.3
Other	30,066	22,635	15.0	14.4
Total		<u>\$272,627</u>	<u>11.5%</u>	<u>13.1%</u>

The weighted average interest rate is calculated by dividing annual interest expense by the daily average outstanding principal balance.

The Company's financing arrangements require maintenance of compensating balances which, were not material in 1980 or 1979.

The Company maintains back-up lines of credit, rates of which generally approximate prime at time of borrowing. Unused back-up lines totalled approximately \$134,000,000 at December 31, 1980.

FIRST COMMERCE CORPORATION

Short-Term Borrowings

An analysis of short-term borrowings follows (in thousands):

	1980	1979
Balance at December 31:		
Funds purchased	\$226,140	\$183,385
Borrowings from banks	5,050	
Other short-term borrowings		9,000
Total	<u>\$231,190</u>	<u>\$192,385</u>

Statistical information regarding funds purchased is presented below (in thousands):

	1980	1979
Average interest rate at December 31	20.40%	12.82%
Maximum outstanding at any month end during the year	\$262,796	\$192,265
Average daily balance outstanding	\$227,338	\$154,657
Average interest rate (interest expense and fees divided by the average daily balance)	12.98%	11.17%

HUNTINGTON BANCSHARES INCORPORATED

Short-Term Borrowings

At December 31, 1980 and 1979 short-term borrowings consisted primarily of Federal funds purchased and securities sold under agreements to repurchase. The following information relates to aggregate Federal funds purchased and securities sold under agreements to repurchase:

(in thousands of dollars)	1980	1979
Average interest rate at year-end	18.00%	12.99%
Maximum amount outstanding at any month-end	\$368,840	\$455,748
Average amount outstanding (total of daily outstanding principal balances divided by the number of days in the year)	\$311,391	\$316,320
Weighted average interest rate (actual interest expense divided by the average amount outstanding)	12.13%	11.71%

At December 31, 1980 the Corporation could borrow up to \$4,500,000 under line of credit arrangements for short-term debt at an interest rate equivalent to the prime rate. The arrangements do not have termination dates but are reviewed annually for renewal. The credit lines were not in use at December 31, 1980. The financing arrangements include formal requirements to maintain compensating balances approximately equivalent to 10% of the amount of the line of credit.

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NATIONAL BANK OF NORTH AMERICA

Short-Term Borrowed Funds

During 1980 and 1979 short-term borrowed funds averaged approximately \$552,745,000 and \$525,476,000, respectively, at a weighted average interest cost of 13.54% and 11.46%, respectively. The weighted average interest cost is computed by dividing the interest expense on such borrowings by the average daily borrowings. The maximum amount of such borrowings outstanding at any month-end was \$813,809,000 in 1980 and \$834,276,000 in 1979. Federal funds purchased and securities sold under agreement to repurchase outstanding at December 31, 1980 and 1979 had a weighted average maturity of approximately 4 days and 11 days, respectively, and a weighted average interest cost of 21.07% and 13.34%, respectively.

There were no formal lines of credit for short-term borrowings at December 31, 1980 or 1979.

EXAMPLES Long-term borrowings (footnotes)

CBT CORPORATION

Long-Term Debt and Other Borrowed Money

The 7-5/8% non-convertible debentures issued by CBT Corporation are payable in various annual installments through 1998. Beginning in 1983, these debentures are redeemable at a premium at CBT's option.

The 4-7/8% non-convertible debentures issued by the Bank are payable in annual installments of \$800,000 through 1986. These capital debentures are fully subordinated to the Bank's liability to its depositors but senior to the Bank's capital stock. The capital debentures are redeemable at 100.65% during 1981 at the Bank's option.

Other Borrowed Money at year end consists of the following:

	December 31, 1980	1979
	(in Thousands)	
Long-Term Debt		
7-5/8% notes due in various installments each year through 1993	\$ 1,996	\$ 2,521
Loan payable which bears interest at 8-1/4% through 1980 and 8-1/2% through 1985. The loan is repayable in four annual installments of \$5,000,000 beginning in 1982 or may be repaid at any time without a penalty or premium.	20,000	20,000
Total Long-Term Debt	21,996	22,521
Short-Term Debt		
Treasury Tax and Loan Note Payable	28,994	35,202
Bank Borrowings	68,437	5,812
Total Short-Term Debt	97,431	41,014
	<u>\$119,427</u>	<u>\$63,535</u>

Scheduled maturities of CBT's long-term debt for the next five years are \$853,000 in 1981, \$5,853,000 in 1982 and \$6,853,000 for the years 1983 through 1985.

FIRST INTERSTATE BANCORP

Notes, Debentures and Mortgages

	December 31 1980	1979
	(in thousands)	
Parent Corporation:		
7.75% Notes due March 1, 1982	\$100,000	\$100,000
8.75% Notes due March 1, 1997	75,000	75,000
8.60% Note due December 15, 1997	30,000	30,000
7.25% Convertible Subordinated Debentures due August 1, 2004	100,000	100,000
11.375% Debentures due May 15, 1990	50,000	-
12.25 Debentures due May 15, 2010	100,000	-
	<u>\$455,000</u>	<u>\$305,000</u>

Affiliates:

Subordinated notes and debentures	\$118,350	\$146,550
Mortgages secured by bank premises	6,610	6,026
Obligations under capital leases	105,594	104,582
	<u>\$685,554</u>	<u>\$562,158</u>

The indenture covering the unsecured 7.75% notes provides, among other things, limitations on mortgages and liens and the sale of stock of principal affiliates.

In connection with the 8.75% notes, payments are required in the amounts of \$4,000,000 in 1984 through 1988, \$5,000,000 in 1989 and \$6,000,000 in 1990 through 1996. The 8.60% note requires payments in the amount of \$2,300,000 in 1985 through 1996. The indentures provide, among other things, limitations on indebtedness and the sale of stock of principal affiliates.

The 7.25% Convertible Subordinated Debentures are convertible into Common Stock at a conversion price of \$36.75 subject to adjustment under certain circumstances. The Debentures are redeemable at the option of the Corporation in whole or in part, at any time, at a premium of 6.525% for the year beginning August 1, 1980, declining to 0.725% on August 1, 1988, and without premium on August 1, 1989.

The Corporation has reserved 2,721,088 shares of its authorized but unissued Common Stock for conversion of these Debentures.

The 11.375% debentures are redeemable at the option of the Corporation in whole or in part on or after May 15, 1987.

The 12.25% debentures are redeemable at the option of the Corporation in whole or in part at a premium of 6.87% for the year beginning May 15, 1990, declining to 0.458% on May 15, 2004 and without premium on May 15, 2005. In each of the years 1991

through 2009, the Corporation is required to pay into a sinking fund an amount sufficient to redeem approximately 4.75% of the debentures annually.

The subordinated notes and debentures of affiliates are subordinated to depositors and other creditors, bear interest at 4-1/2% to 8-1/2% and mature at various dates from 1982 through 1997.

Maturities of notes and debentures for the five years succeeding December 31, 1980 are \$100,305,000 in 1982, \$1,055,000 in 1983, \$5,055,000 in 1984 and \$7,355,000 in 1985. The agreements provide certain restrictions on the payment of cash dividends by affiliates; however, the total amount of retained earnings of the affiliated banks so restricted is not material.

LOUISIANA NATIONAL BANK

Long-Term Notes and Debentures

Long-term notes and debentures consist of the following at December 31:

	1980	1979
	(000's omitted)	
Mortgage Notes Payable	\$ 7,695	\$ 7,948
Subordinated Notes Payable:		
Bank	8,875	10,000
Wholly-Owned Subsidiary	1,000	1,000
Other Long-Term Borrowings	3,996	4,462
	<u>\$21,566</u>	<u>\$23,410</u>

The Mortgage Notes Payable consists of 5% sinking fund notes, maturing January 1, 1999. The notes were issued by a subsidiary of the Bank under a loan agreement which requires quarterly payments of \$161,335 including interest. The notes are collateralized by a first mortgage on the main bank premises assignment of leases with the two prime tenants (one of which is the Bank) of the mortgaged premises and a pledge of all of the issued and outstanding stock of the subsidiary.

The Bank issued a \$5,000,000 note in 1973, payable in quarterly installments ranging from \$375,000 to \$500,000, with the first principal installment having been paid June 1, 1980 and the final installment due March 1, 1983. Interest is payable quarterly at Citibank, N.A. prime rate plus 3/4% (22-1/4% at December 31, 1980). The indenture under which the notes were issued prohibits the Bank from paying cash dividends in excess of 33-1/3% of net income in a fiscal year.

In 1978, the Bank issued an additional \$5,000,000 note, payable in annual installments of \$625,000 with the first principal installment due June 30, 1986 and the final installment due June 30, 1993. Interest is payable semi-annually at the rate of 9.75% per annum. The indenture under which the notes were issued prohibits the Bank from paying cash dividends in excess of 65% of consolidated net earnings subsequent to March 31, 1978, plus \$1,000,000.

The notes issued by the Bank are subordinated to all banking liabilities.

Louisiana Equity Capital Corporation issued a \$100,000 debenture in March 1976 with the principal due March 1, 1986 and interest payable semi-annually at a rate of 7.905% per annum. In May 1976 an additional \$900,000 debenture was issued with the principal due May 1, 1986 and interest payable semi-annually at an annual rate of 8.145%. These debentures are unsecured and guaranteed by the Small Business Administration.

Other long-term borrowings consist of VISA pooled participations sold to agent VISA banks (1980-\$3,996,000; 1979-\$4,170,000) and, in 1979, a long-term note of the Bank issued in connection with the purchase of Louisiana National Leasing Corporation, a wholly-owned subsidiary.

FIRST MARYLAND BANCORP

Long-Term Debt

Following is a summary of the long-term debt of Bancorp and its subsidiaries at December 31, 1980 and 1979 (all unsecured):

(in thousands)	1980	1979
9-3/4% Notes due November 1, 1983	\$25,000	\$25,000
8-1/2% Notes due January 15, 1985	5,000	5,000
8-3/8% Notes due February 15, 1987	5,000	5,000
8-3/4% Notes due January 15, 1993	5,000	5,000
5% Notes of Housing Corporation, non-current portion due July 1, 1982	300	400
	<u>40,300</u>	<u>40,400</u>
Less current portion	-	(100)
	<u>\$40,300</u>	<u>\$40,300</u>

The 9-3/4% Notes are obligations of Bancorp that mature November 1, 1983 with interest payable semi-annually. At the option of Bancorp, the Notes may be redeemed in whole or in part beginning November 1, 1981. There are no restrictions in the Notes or related Indenture against incurring indebtedness by Bancorp, the Bank or any other subsidiary, nor is there provision for a sinking fund; however, Bancorp cannot create, assume, or incur any mortgage, pledge or encumbrance upon any of its properties without making effective provision whereby the Noteholders are equally and ratably secured with such obligations. The Indenture also prohibits the sale, transfer or disposal of any capital stock of the Bank.

All long-term debt of the non-bank subsidiaries is owed to Bancorp except for the notes of Housing Corporation. Interest rates range from 8-5/8% to 12%.

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FLAGSHIP BANKS INC.

Long-Term Borrowings

A summary of long-term borrowings at December 31 is as follows:

	1980	1979
	(In Thousands)	
Parent Company:		
Capital Debenture Notes	\$20,050	\$20,050
Capital Notes--\$15 million face amount, net of unamortized discount	14,879	14,868
Unsecured Notes	18,800	8,000
Other	210	-
	<u>53,939</u>	<u>42,918</u>
Subsidiary Banks	781	792
	<u>\$54,720</u>	<u>\$43,710</u>

The capital debenture notes of the Company bear interest at 8.25% and are due August 1998. The Company is required annually, beginning in 1983, to redeem \$700,000 of the notes without premium. At its option, the Company may redeem annually, beginning in 1983, an additional \$700,000 of the notes without premium, and redeem additional amounts (but not less than \$400,000) at par plus a premium of 4.13%. The premium declines proportionately each year until 1992, after which the debentures may be redeemed at par.

The Capital Notes bear interest at 9.75% and are payable \$1.5 million annually, beginning 1984. The Company may prepay these notes beginning in 1986 at a premium of 4.55%, and at a reducing premium thereafter.

The unsecured notes represent borrowings under three credit agreements. \$7,000,000 bears interest at 105% of the prime rate to April 1, 1982, at 108% of prime for the next two years, and at 110% of prime thereafter. It is payable \$1,000,000 in 1981, and \$1,500,000 yearly in the next four years. \$8,400,000 bears interest at prime to March 31, 1981, 104% of prime from April 1, 1981 to March 31, 1982, 108% of prime from April 1, 1982 to January 31, 1983 and 110% of prime thereafter. These notes are payable quarterly beginning at \$750,000 on April 30, 1983 and increasing to \$1,500,000 on April 30, 1984. \$3,400,000 bears interest at 9% until February 28, 1982, at prime plus 1/2% for the next two years, and at prime plus 3/4% thereafter. Payment begins July 1, 1982 at \$153,000 per quarter and escalates yearly, with the final payment due April 1, 1986.

Under the various credit agreements, the Company and subsidiaries have agreed to certain covenants, among which are limitations on the amount of loans made to others, payment of dividends, indebtedness, and the maintenance of net worth at certain levels. The most restrictive dividend covenant provides that dividends for any fiscal year are limited to 40% of the higher of (a) prior fiscal year's, or (b) the average of the prior 3 years', defined net earnings plus, for 1981, the additional amount of \$17,600,000. This additional amount increases \$1,600,000 per year and is reduced by the amount of any dividends in excess of the percentage of earnings payout limitation. When the equity capital to

asset ratio is 7% or more, the percentage payout limitation increases to 50%. Under this covenant, 1981 common and preferred dividends may not exceed \$26,414,000.

Principal amounts due for the next five years on the long-term borrowings at December 31, 1980 are: 1981--\$1,167,000; 1982--\$1,962,000; 1983--\$5,286,000; 1984--\$9,927,000; 1985--\$5,731,000.

FIRST PENNSYLVANIA CORPORATION

Senior and Subordinated Long-Term Debt

	December 31,	
	1980	1979
Senior debt, 5% to 15.61% due through 1995	\$ 21,573	\$ 25,110
Senior debt, prime rate, due in installments 1992 through 1984--Parent	45,000	50,000
Subordinated notes--Assistance Banks, 11.50% to May 28, 1981; rate adjusted annually based on one year certificate of deposit rate for prime banks to May 28, 1985	175,000	-
Subordinated notes--FDIC, no interest payable to May 28, 1981; 125% of FDIC's portfolio yield adjusted annually to May 28, 1985	325,000	-
Subordinated capital notes, 8.25% due January, 1999	40,000	40,000
Subordinated note, 9.35% due July, 2003	10,000	10,000
Convertible subordinated debentures, 5% due 1993--Parent	60,000	60,000
	<u>676,573</u>	<u>185,110</u>
Unamortized discount	(26,450)	-
Total	<u>\$650,123</u>	<u>\$185,110</u>

Discount results from issuance of 20 million warrants, valued at \$30 million, to FDIC and Assistance Banks. Discount will be amortized through May 29, 1985.

The table excludes \$6,963 of current maturities of long-term borrowings at December 31, 1980. The aggregate amount of payments required on such borrowings through 1985 are as follows: \$12,988 in 1982; \$12,791 in 1983; \$28,487 in 1984; and \$500,617 in 1985.

Included in cash is \$6 million of compensating balances related to the Parent's senior debt.

The convertible subordinated debentures are convertible into common stock at \$43 per share.

EXAMPLES Unused lines of credit (footnotes)

FIRST CITY BANCORPORATION OF TEXAS, INC.

Funds Purchased and Other Borrowings

The following table summarizes pertinent information about funds purchased and other borrowings by First City:

Year Ended December 31 (Dollars in thousands)	Funds Purchased	Commercial Paper	Other Short-Term Borrowings
1980			
Balance at December 31	\$1,386,283	\$54,108	\$10,200
Daily average amount outstanding	1,215,345	49,210	10,411
Maximum month-end balance	1,649,434	54,108	11,429
Weighted average interest rate	12.98%	12.92%	15.31%
Weighted average interest rate at end of year	21.87	19.57	21.50
1979			
Balance at December 31	\$ 977,799	\$41,324	\$12,088
Daily average amount outstanding	919,174	37,803	9,117
Maximum month-end balance	1,231,244	42,033	12,088
Weighted average interest rate	11.10%	11.05%	10.65%
Weighted average interest rate at end of year	14.72	13.04	14.62

At December 31, 1980 the parent company had a revolving credit agreement with an unaffiliated bank which provides for short-term borrowings of up to \$125,000,000 through June 30, 1983, when such borrowings may be converted to a seven-year term note payable in quarterly installments commencing September 30, 1983. The interest rate on such borrowings will be at the unaffiliated bank's prime commercial rate to July 1, 1983, 1/4 of 1% above such rate to June 30, 1986 and 1/2 of 1% above such rate from July 1, 1986 until the principal amount is paid. This agreement and the indenture described in Note 8 contain certain restrictive covenants which limit the amount of retained earnings available for dividends. After giving effect to these restrictions, the amount of retained earnings not restricted was approximately \$114,689,000 at December 31, 1980.

The parent company also maintains \$30,000,000 in unsecured lines of credit with unaffiliated banks, primarily to support commercial paper. The revolving credit agreement and one of the lines of credit include informal agreements to maintain compensating balances equal to 10% of the line of credit plus 10% of the amount of loans outstanding under such agreements. These compensating balances are maintained for the benefit of the parent company by a subsidiary bank which normally maintains correspondent balances with the unaffiliated bank. The compensating balance expected under the informal agreements was \$16,020,000 at December 31, 1980 and \$11,020,000 at December 31, 1979.

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CENTRAN CORPORATION

Short-Term Borrowings

Short-term borrowings of the Corporation consist of: federal funds purchased, which generally represent overnight borrowings; securities sold under agreements to repurchase, which generally mature within one month; commercial paper, which is issued with maturities of 270 days or less; and other borrowings from the U.S. Treasury and others which mature in one year or less. The details of short-term borrowed funds for 1980 and 1979 are as follows:

	1980		1979	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Federal Funds Purchased and Securities Sold Under Agreements to Repurchase:				
Balance at End of Year	\$675,132	18.83%	\$614,320	13.13%
Average During the Year	679,114	12.36	420,073	10.96
Maximum Month-end Balance	970,173	9.23	614,320	13.13
Commercial Paper:				
Balance at End of Year	100,606	19.83	78,703	14.06
Average During the Year	90,268	13.52	58,165	11.71
Maximum Month-end Balance	100,606	19.83	78,703	14.06
Other Short-Term Borrowings:				
Balance at End of Year	25,663	19.54	68,263	12.55
Average During the Year	29,038	11.71	31,045	9.78
Maximum Month-end Balance	48,613	12.62	68,263	12.55

The average rates paid on total short-term borrowings for 1980 and 1979 were 12.47% and 10.97%.

At December 31, 1980, the Corporation had unused lines of credit available for short-term financing totaling \$83,500,000 with various non-affiliated banks. Of this amount, \$70,500,000 is carried on a fee basis (principally commercial paper back-up lines) with the remainder requiring compensating balances. Borrowings under the fee lines are repayable on demand and bear interest at 108% of the prime rate. The compensating balance line borrowings are at prime, plus an additional 10% compensating balance on the usage.

EXAMPLES Subordinated or capital notes and debentures classified between liabilities and equity (balance sheet--liabilities and equity section)

LASALLE NATIONAL BANK

	December 31,	
	1980	1979
Liabilities		
Deposits		
Domestic		
Demand	\$ 253,570	\$ 243,052
Savings Type	216,580	203,305
Other Time	385,178	314,719
Total Domestic Deposits	855,328	761,076
Foreign	25,174	20,120
Total Deposits	880,502	781,196
Federal Funds Purchased and		
Other Borrowings	253,364	184,013
Acceptances Outstanding	25,294	6,468
Accrued Taxes and Other		
Liabilities	17,787	12,018
Total Liabilities	1,176,947	983,695
Subordinated Capital Notes		
and Debentures	13,989	14,239
Equity Capital Accounts:		
Common Stock, Par Value \$10		
per Share:		
Shares Authorized--800,000		
Shares Issued and Out-		
standing--736,009	7,360	7,360
Surplus	17,640	17,640
Undivided Profits	35,865	30,921
Total Equity Capital		
Accounts	60,865	55,921
Total Liabilities and		
Equity Capital Accounts	\$1,251,801	\$1,053,855

MARINE MIDLAND BANKS, INC.

	December 31,	
	1980	1979
Liabilities		
Demand deposits	\$ 3,600,547	\$ 3,333,775
Personal savings	3,017,317	2,745,505
Other time deposits	1,462,977	1,582,490
Deposits in foreign offices	6,082,177	4,847,237
Total deposits	14,163,018	12,509,007
Federal funds purchased	667,750	881,785
Securities sold under		
repurchase agreements	503,500	287,446
Other funds borrowed	192,794	265,749
Interest, taxes and other		
liabilities	296,857	331,644
Acceptances outstanding	541,252	569,350
Obligations under capital		
leases	87,740	85,864
Notes and mortgages payable	92,115	22,474
Debentures	149,807	170,000
Total liabilities		
excluding subordi-		
nated debt	16,694,833	15,123,319
Subordinated debt	22,978	124,506
Shareholders' equity		
Preferred stock	2,364	2,384
Common stock, \$5 par;		
Authorized--30,000,000		
shares		
Issued--19,179,143 and		
12,512,476 shares	95,896	62,562
Capital surplus	310,399	110,759
Retained earnings	354,042	305,573
Less--common stock in		
treasury, at cost,		
29,710 shares	(947)	(947)
Total shareholders'		
equity	761,754	480,331
Total liabilities and		
shareholders' equity	\$17,479,565	\$15,728,156

CHAPTER 2

Statement of Income

Format—Fourth Bank Corporation

The following income statement of Fourth Bank Corporation has been excerpted from E&W's *SEC Annual Reports—Banking Industry Supplement—1981*. It is presented as an example of the net interest margin format which is required to be used in the financial statements of SEC registrants. Bank regulators require presentation of only two years and do not require the use of this format; however, it is widely used by commercial banks which issue annual reports to their shareholders. It is presented as an example only and not as a standard form to be followed by all banks.

FOURTH BANK CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income

	Year Ended December 31				Year Ended December 31		
	1981	1980	1979		1981	1980	1979
	(Amounts in thousands, except per share data)				(Amounts in thousands, except per share data)		
Interest income:				Other income:			
Interest and fees on loans	\$273,324	\$197,339	\$152,023	Trust department income	8,967	11,371	13,998
Interest on investment securities--				Service charges on deposit accounts	9,722	5,518	4,352
Taxable	21,831	23,561	23,004	Other service charges and fees (including credit card fees of \$400 in 1981)	9,325	8,720	10,738
Exempt from Federal income taxes	1,538	2,438	3,999	Trading account income	2,396	3,491	4,299
Trading account interest	29,147	27,715	27,073	Other	2,583	3,003	3,856
Other interest income	16,742	18,083	10,464		28,783	30,103	37,083
Direct lease financing income	12,152	9,737	8,293		118,433	117,829	105,941
TOTAL INTEREST INCOME	353,834	279,256	234,853		*		
Interest expense:				Other expenses:			
Interest on deposits:				Salaries and employee benefits	58,055	55,128	48,585
Savings deposits	28,512	23,808	20,247	Occupancy expense (net)	10,647	10,137	9,001
Time deposits (net of early withdrawals penalties of \$1,980 in 1981)	18,850	15,184	11,565	Furniture and equipment expense	4,722	3,894	3,495
Time certificates of deposits in denominations of \$100,000 or more	25,410	21,533	1,791	Cost of operation of other real estate	5,381	2,873	2,509
Deposits in foreign banking offices	10,380	28,868	28,936	Other	20,615	16,798	14,918
	140,112	129,151	98,537		95,400	88,822	76,888
Interest on short-term borrowings	44,159	42,814	31,781	Income before income taxes and security gains or losses:	33,013	29,807	27,053
Interest on capital lease obligation	408	410	448	Applicable income taxes	13,089	11,613	10,823
Interest on 41 convertible capital notes due 1988	836	1,080	1,007	Income before security gains or losses	20,924	18,194	16,230
TOTAL INTEREST EXPENSE	185,335	173,466	132,779	Net security gains (losses) after applicable income taxes of \$91 in 1981, \$546 in 1980 and \$103 in 1979	87	14,993	423
NET INTEREST INCOME	168,500	105,790	102,074	NET INCOME	\$ 21,012	\$ 32,809	\$ 16,654
Provision for loan losses	14,423	13,290	12,380	Per share data:			
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	154,077	92,500	89,694	Primary:			
				Income before security gains or losses	\$1.37	\$1.08	\$1.36
				Net income	2.25	2.00	2.01
				Fully diluted:			
				Income before security gains or losses	\$1.24	\$1.93	\$1.82
				Net income	2.25	2.00	2.01

See notes to financial statements.

Interest and fees on loans

In prior years' surveys most surveyed companies included a discussion of interest and the income on loans in an accounting policy footnote. In 1981, 65% of the surveyed commercial banks and 63% of the surveyed holding companies disclosed their methods of accounting for interest income from installment loans. Sixty-two percent of the surveyed commercial banks and 58% of the surveyed holding companies disclosed that they used the Rule of 78s method.

Thirteen percent of the surveyed commercial banks and 7% of the surveyed holding companies disclosed the method used to account for loan fees. Fifty-seven percent of the surveyed companies making this disclosure indicated that certain loan fees were immediately taken into income and other types of loan fees were amortized over time. Thirty-eight percent indicated that such fees were immediately credited to income and 5% indicated that fees were amortized into income over time.

Corporate income taxes

Both Regulation S-X and federal bank regulators' securities disclosure rules require that annual shareholders reports include a reconciliation of the federal statutory income tax rate to the company's effective income tax rate. In 1980 substantially all surveyed companies either presented a tabular reconciliation or disclosed in narrative form, the major differences between the statutory and effective tax rates. The most common reconciling item was nontaxable interest on obligations of states and political subdivisions.

Substantially all of the 1980 surveyed companies included disclosures related to deferred tax expense. Table 6 shows that the disclosure was most commonly made in both the statement of changes in financial position and the notes to the financial statements. Most surveyed companies disclosed the components of deferred taxes in a footnote together with other income tax matters.

Table 6. Deferred Income Taxes

	Commercial Banks		Holding Companies	
	80	79	80	79
Deferred taxes were disclosed in:				
Statement of changes in financial position and notes to financial statements	73%	66%	71%	76%
Notes to financial statements	22	32	22	19
Notes to financial statements and balance sheet and/or income statement	5	2	7	5
	100%	100%	100%	100%

Tax benefits

Approximately 18% (15% in 1979) of the surveyed companies reported realization of net income tax benefits. Only 1% (4% in 1979) of the surveyed companies disclosed realization of a tax benefit resulting from a loss carried back against the taxable income of the immediately preceding ten years.

Capitalization of interest

FASB Statement No. 34 "Capitalization of Interest Cost" applies to banks and bank holding companies that incur interest costs in connection with the construction of banking facilities or in completing real estate projects acquired through foreclosure.

Interest expense incurred during the period of time required to get the assets ready for their intended use should be deferred and included as part of the cost of the constructed assets or acquired property. The amount deferred is limited to total actual interest expense incurred and is computed by multiplying the borrowing rate times the average expenditures (including acquisition cost in the case of other real estate) for the assets during the construction or development period. For banks, the borrowing rate could be based on:

Actual rate on borrowings directly related to the project

Pooled rate based on all interest bearing liabilities

Computed rate based on selected deposits and/or borrowings

The Statement provides little guidance on materiality in deciding whether capitalization of interest is required. As a result, various approaches have been proposed to avoid capitalization (e.g., a pro forma calculation—assuming interest always had been capitalized).

Statement No. 42 amends Statement No. 34 and clarifies that the usual materiality tests for accounting changes apply, such as how capitalization would affect net income of the current period. Pro forma calculations are not appropriate.

Statement No. 42 should be applied at the same time No. 34 is first applied. Companies that have already adopted the earlier Statement, but avoided capitalization of interest because of a pro forma calculation of materiality, will have to start capitalizing interest in fiscal years beginning after October 15, 1980. For these companies, restatement of financial statements in which Statement No. 34 was applied is permitted, but not required.

Our Financial Reporting Developments publication "Capitalization of Interest Cost" (E&W No. 39129) provides guidance for banks in applying Statement No. 34.

Table 7. Capitalization of Interest*

	Commercial Banks	Holding Companies
Reports disclosing capitalized interest:		
Amount disclosed	100%	86%
Amount not disclosed due to immateriality		14
	100%	100%
Number of reports disclosing capitalized interest	2	14

*Disclosure requirements initially effective for 1980.

Income from financial futures market transactions

Volatile interest rates have caused many financial institutions to use or consider using financial futures and forward contracts to protect interest spreads or to improve profits. Currently, there is little guidance as to generally accepted accounting principles for these transactions for banks.

An important development was the joint issuance by the federal bank regulatory agencies of "Banking Circular No. 79", effective January 1, 1980, which dealt with bank participation in the futures and forwards markets.

The Circular required that gains or losses on futures positions be recognized using monthly mark-to-market adjustments and any losses on open forward positions be recognized at month-end using the lower of cost or market value of the underlying security.

However, in March 1980 the Federal Reserve Board and FDIC revised their policy statements (applicable to state banks) to:

1. Give banks the option to carry futures and forward positions on a market or lower of cost or market basis.
2. Exempt futures and forward contract activities associated with bona fide hedging of a mortgage banking operation from the previously prescribed accounting treatment.
3. Exempt contracts executed prior to January 1, 1980 from the previously prescribed treatment.

The Comptroller of the Currency adopted similar revisions for national banks. However, contracts executed by national banks prior to January 1, 1980 were not exempted because the Comptroller had similar accounting provisions in effect since 1977.

An AICPA task force on forward commitments and interest rate futures has submitted an issues paper to the FASB which addresses the varying methods of accounting for these activities. However, FASB action on these issues is not expected for some time.

The most significant issue addressed in the issues paper is whether gains or losses should be recognized to reflect periodic changes in market interest rates. Other accounting issues addressed in the AICPA issues paper are:

1. Should the accounting treatment for futures and forward transactions be consistent?
2. Should the underlying asset and liability of a futures or forward contract be recorded on the balance sheet prior to settlement date?

Basic conclusions of existing literature, including FASB Statement No. 8 with respect to forward exchange contracts for foreign currency and the AICPA "Audit and Accounting Guide for Savings and Loan Associations" with respect to GNMA futures contracts (which did not fully anticipate the variety of current transactions), are that (1) speculative transactions should be marked-to-market and (2) hedging transactions may be tied together with underlying assets, liabilities or commitments.

The following table shows how the surveyed companies disclosed financial futures and forward transactions.

Table 8. Financial Futures and Forwards Commitments*

	Commercial Banks	Holding Companies
Financial futures and forward transactions were disclosed in:		
Investment policy footnote	2%	4%
Separate policy footnote		1
Commitments and contingent liabilities footnote	2	2
Not disclosed	96	93
	100%	100%
Number of surveyed companies making disclosures	2	12
Of those surveyed companies disclosing futures and forward transactions the disclosure included:		
Amount of unrealized gain or loss		17%
Method of accounting for unrealized gain or loss	50%	50
The company's position in these markets at year-end	50	33
Only a statement that the company entered into such transactions		25

*Data not surveyed in 1979

30 Statement of Income

EXAMPLES Change in method of recognizing interest income from the rule of '78s method to the simple interest method (summary of accounting policies)

VALLEY NATIONAL BANK OF ARIZONA

Loans

Loans are stated net of unearned income. Unearned discount on instalment loans made prior to October 1, 1980 is taken into income using the rule of seventy-eights, which recognizes interest in decreasing amounts over the loan term. Effective October 1, 1980 all instalment loans are being made on a simple interest basis. Unearned income on real estate loans is amortized over twelve years.

UNITED BANCORP OF ARIZONA

Loans

Loans are generally carried at amounts advanced less payments received. Mortgage loans held for resale by the mortgage banking subsidiary are carried at the lower of cost or aggregate market. Discounted loans are carried net of unearned income. Interest on all loans is accrued over the term of the loans based on the amount of principal outstanding, except unearned income on discounted loans which is recorded as income over the term of the loan using the rule of 78ths method through September 30, 1980. Effective October 31, 1980 such method was discontinued and the simple interest method was adopted. The impact on net income resulting therefrom was not material.

EXAMPLES Method of accounting for loan fees (summary of accounting policies)

BANKAMERICA CORPORATION

Loans are carried at the principal amount outstanding. Related loan fees are generally amortized into income over the applicable loan or service period. Immaterial amounts of fees are credited to income as received.

Interest revenue on nondiscounted loans is generally accrued based on the principal amount outstanding. Interest revenue on discounted loans is accrued based on other methods that generally approximate the level-yield method.

SUMITOMO BANK OF CALIFORNIA

Loans

Interest income is accrued principally on a simple interest basis. Interest income on discount-basis loans is deferred and subsequently credited to income by the sum-of-the-months digits methods over the outstanding period of the related loans. Loan fees are included as income in the period the loans are originated.

EXAMPLES Reconciliation between effective and statutory income tax rate (footnotes)

PHILADELPHIA NATIONAL CORPORATION

The consolidated provision for taxes on income before securities transactions for 1980, 1979 and 1978 are at effective rates of 8.2%, 24.0% and 27.7%, respectively, as follows:

	1980	1979	1978
Statutory rate	46.0%	46.0%	48.0%
Difference resulting from:			
Tax exempt interest on securities	(15.8)	(9.0)	(11.6)
Tax exempt loan income	(18.1)	(10.3)	(10.0)
Foreign tax	1.6	.9	2.7
Undistributed foreign income	(3.3)	(1.9)	(2.1)
State and local income tax	2.2	2.0	1.9
Capital gain income	(2.8)	(2.9)	(.3)
Other	(1.6)	(.8)	(.9)
Effective tax rate	<u>8.2%</u>	<u>24.0%</u>	<u>27.7%</u>

BANCAL TRI-STATE CORPORATION

Reasons for the difference between the federal statutory tax rate and the effective tax rate were as follows:

	Year ended December 31					
	1980		1979		1978	
	(Dollars in thousands)					
	\$	%	\$	%	\$	%
Tax expense at federal statutory rate	\$8,869	46.0%	\$10,576	46.0%	\$10,726	48.0%
Increase (decrease) in taxes from tax exempt interest income	(8,463)	(43.9)	(7,481)	(32.5)	(4,334)	(19.4)
Income at capital gains rates less tax preference effect					(1,182)	(5.3)
State and local income taxes less federal income tax benefit	1,251	6.5	1,459	6.3	1,311	5.9
Foreign income taxes less federal income tax benefit	1,058	5.5				
Investment tax credit	(357)	(1.8)	(308)	(1.3)	(79)	(.4)
Other, net	(53)	(.3)	(232)	(1.0)	92	.4
Total income tax expense	<u>\$2,305</u>	<u>12.0%</u>	<u>\$ 4,014</u>	<u>17.5%</u>	<u>\$ 6,534</u>	<u>29.2%</u>

FIRST NATIONAL BANCORPORATION, INC.

The provision for income taxes reconciles to the Federal statutory income tax rate as follows:

	Year Ended December 31					
	1980		1979		1978	
	(Dollars in Thousands)					
	Amount	Ratio to Pretax Income	Amount	Ratio to Pretax Income	Amount	Ratio to Pretax Income
Federal tax at statutory rate	\$13,099	46.0%	\$ 8,954	46.0%	\$10,960	48.0%
Increase due to state income tax net of Federal tax benefit	361	1.3	168	.9	375	1.6
(Decrease) due to tax-exempt revenues from obligations of states of the U.S. and political subdivisions	(5,142)	(18.1)	(4,541)	(23.4)	(4,482)	(19.6)
(Decrease) due to net investment tax credit	(997)	(3.5)	(634)	(3.3)	(738)	(3.2)
Increase (Decrease) due to miscellaneous items, each less than 5% of tax at statutory rate	479	1.7	(611)	(3.1)	(243)	(1.1)
Income tax provision	<u>\$ 7,800</u>	<u>27.4%</u>	<u>\$ 3,336</u>	<u>17.1%</u>	<u>\$ 5,872</u>	<u>25.7%</u>
Applicable to:						
Income before securities gains (losses)	\$ 8,074		\$ 3,373		\$ 5,816	
Securities gains (losses)	(274)		(37)		56	
Total as above	<u>\$ 7,800</u>		<u>\$ 3,336</u>		<u>\$ 5,872</u>	

SUBURBAN BANCORPORATION

The difference between the tax provision in the Consolidated Statement of Income and amounts computed by applying the statutory Federal income tax rate to income before income taxes and net securities losses is attributable to the following:

	1980	1979	1978
	(In Thousands)		
Income tax computed at the statutory Federal rate of 46 percent in 1980 and 1979, and 48 percent in 1978	\$9,658	\$9,754	\$8,284
Non-taxable interest income	(5,331)	(4,992)	(4,972)
State tax-net of Federal tax benefits	789	821	650
Investment tax credit	(1,050)	(757)	(174)
Other	(142)	133	23
Provision for income taxes	<u>\$3,924</u>	<u>\$4,959</u>	<u>\$3,811</u>
Effective tax rate	18.7%	23.4%	22.1%

EXAMPLES Carryforward of tax losses and credits (footnotes)**UNION PLANTERS CORPORATION**

The extraordinary item of \$1,806,000 which increased 1980 net earnings arose from the utilization of carryforward benefits. As of December 31, 1980, all net operating loss carryforwards had been utilized both for the Federal income tax return and for financial reporting purposes. At December 31, 1980, the Corporation had cumulative net timing differences of approximately \$5,000,000 that had reduced net earnings for financial reporting purposes in 1980 and earlier years but had not been used to reduce net earnings for Federal income tax purposes. The Corporation has not recorded any tax benefits from these accumulated timing differences. The tax benefits which may result from these accumulated timing differences in the future will be reported as an extraordinary item.

FIDELCOR, INC.

The 1980 charge in lieu of Federal income tax is equivalent to the provision for tax that would have been required in the absence of the net operating loss carryforward remaining from prior years for financial reporting purposes. The tax benefit arising from the utilization of the net operating loss carryforward for financial reporting purposes is included as an extraordinary item.

CENTRAL NATIONAL CHICAGO CORPORATION

The Company amended certain of its income tax returns applicable to prior years in 1980 and 1979 as a result of amendments to certain Internal Revenue Service regulations. The filing of these amended income tax returns allowed the Company to carryback losses which arose principally in 1975 for financial reporting purposes to 1969 and 1970 and resulted in a refund of taxes paid in those years of \$33,000 and \$1,654,000, respectively. The period of utilization of the Company's net operating loss carryforward was extended from 1980 to 1983; accordingly, in 1979 deferred income taxes of \$177,000 that were expected to become payable during the extended carryforward period and federal income taxes of \$231,000 arising from 1979 consolidated results of operations (\$521,000 in 1978), together with the refund described above, represent utilization of prior years' net operating losses and are shown as extraordinary credits in the 1979 consolidated statements of income. The Company has a net operating loss carryforward of approximately \$11,245,000 available to reduce future taxable income; approximately \$6,552,000 is due to expire in 1983 and \$4,693,000 is due to expire in 1985.

EXAMPLES Capitalization of interest (footnotes)**GULFSTREAM BANKS, INC. (summary of accounting policies)**

Interest costs incurred on discretionary borrowings are capitalized and added to the cost basis of buildings when construction financing has not been obtained. Such interest amounted to \$145,000 in 1980.

FIRST FLORIDA BANKS INC. (premises and equipment footnote)

The Company considers interest on construction financing to be an element of the total cost of the related facility and, therefore, such interest is capitalized during the construction period and charged to income as a component of depreciation expense over the life of the related asset. No significant amounts of construction interest were capitalized during 1980, 1979 or 1978.

EL PASO NATIONAL CORPORATION (premises and equipment footnote)

Effective January 1, 1980 and continuing through June 2, 1980, El Paso National Corporation capitalized interest expense related to the interim construction of banking facilities for a new subsidiary, West El Paso National Bank. Interim construction financing was obtained from unaffiliated banks with the related interest expense of \$67 thousand included in the carrying value of the new bank premises rather than as interest expense for the applicable period.

FIRST UNION BANCORPORATION (premises and equipment footnote)

At December 31, 1980, construction in progress included capitalized costs of \$13,300,000 incurred by First National Bank in St. Louis, the Company's principal banking subsidiary, in connection with construction of The First National Bank Building in downtown St. Louis. Included in the December 31, 1980 total is \$1,420,000 of capitalized interest cost, \$1,013,000 of which was capitalized in 1980 and \$407,000 of which was capitalized in 1979. In connection with its anticipated move into new quarters, the Bank sold during 1979 the Executive Office Building and a downtown facility.

EXAMPLES Financial futures and forward commitments (summary of accounting policies)

EQUITABLE BANCORPORATION

A subsidiary of the Company has entered into two Federal Securities Purchase Agreements under which it is obligated to sell at predetermined prices (which are in excess of cost) qualified federal securities to a trustee over a remaining five-year period. U.S. Government obligations carried at \$29,486,000 (market value--\$20,401,000) on December 31, 1980 with stated maturity dates between 1990 and 1999 are carried in investment securities to satisfy the subsidiary's future commitment under these agreements.

NATIONAL CITY CORPORATION

Trading account profits or losses also include gains and losses and adjustments to market on interest rate futures and forward contracts related to trading account assets and liabilities.

Interest rate futures and forward contracts related to asset and liability positions other than in the trading account are accounted for in symmetry between the asset or liability and the futures or forward contracts.

FIRST UNION CORPORATION

Gains or losses on interest rate futures contracts purchased or sold for the purpose of hedging specific assets carried at cost are deferred and amortized over the life of the contract if the hedged security is deliverable against the contract; otherwise, such gains or losses are deferred and recognized when the asset is sold.

Trading account securities including interest rate futures, forward placement contracts, and standby contracts purchased or sold for the trading account are carried at market value. Included in other operating income are gains and losses which are recognized on an as traded basis and from the adjustment of the securities to market value.

EXAMPLES Extraordinary items

FARMERS BANK OF THE STATE OF DELAWARE

Income statement presentation

	1980	1979	1978
Income before extraordinary item	\$4,929,652	\$4,725,877	\$2,821,138
Extraordinary item	3,628,089	3,406,260	2,122,945
Net income	<u>\$8,557,741</u>	<u>\$8,132,137</u>	<u>\$4,944,083</u>
Per Common Share Data--Note A:			
Income before security losses and extraordinary item (after preferred stock dividends of \$1,200,000)	\$4.29	\$3.91	\$1.78
Net security losses	(.45)	(.27)	(.11)
Extraordinary item	3.74	3.51	2.19
Net income	<u>\$7.58</u>	<u>\$7.15</u>	<u>\$3.86</u>

Footnote disclosure

The extraordinary item in the consolidated statements of income represents a reduction in income taxes resulting from the following:

	Year Ended December 31		
	1980	1979	1978
	(Dollars in Thousands)		
Realization of tax net operating loss carryforward		\$ 168	\$1,610
Provision for possible loan losses in prior years, recognized currently for tax purposes	\$3,628	3,238	513
	<u>\$3,628</u>	<u>\$3,406</u>	<u>\$2,123</u>

34 Statement of Income

MARINE MIDLAND BANKS, INC.

Income statement presentation

	1980	1979	1978
Income before extraordinary item	\$55,896	\$39,848	\$24,517
Extraordinary item	6,832	-	3,900
Net income	<u>\$62,728</u>	<u>\$39,848</u>	<u>\$28,417</u>

Footnote disclosure

Extraordinary item

In 1980 the Corporation purchased a total of \$20,193,000 principal amount of its outstanding debentures for \$13,263,000. The debentures purchased were portions of the 5% due 1989, 8-1/8% due 1994 and the 7-5/8% due 2003. The transaction net of unamortized issue costs resulted in an extraordinary gain of \$6,832,000. The Corporation elected under the provisions of the Internal Revenue Code to reduce the basis of certain investments rather than recognize the gain. The investments are expected to be retained indefinitely and accordingly no income tax has been provided.

The extraordinary item in 1978 represented a tax benefit from operating loss carryover.

LANDMARK BANKING CORPORATION OF FLORIDA

Income statement presentation

	1980	1979	1978
Income before extraordinary item	\$11,669,551	\$8,975,492	\$7,685,807
Extraordinary item--reduction of income taxes arising from carryforward of prior years' operating losses	1,568,165	202,745	-
Net Income	<u>\$13,237,716</u>	<u>\$9,178,237</u>	<u>\$7,685,807</u>

Per share, based on average shares outstanding of 7,898,256 in each year

Income before investment securities transactions and extraordinary item	\$1.66	\$1.23	\$.97
Income before extraordinary item	1.48	1.14	.97
Net income	1.68	1.16	.97

Footnote disclosure

Landmark files consolidated Federal and state income tax returns. The Federal income tax returns have been examined and settled through 1975. Landmark recorded extraordinary tax credits of \$1,568,165 and \$202,745 for the years ended December 31, 1980 and 1979, respectively. These credits resulted from the utilization of prior years' net operating loss carryforwards.

FIRST WISCONSIN CORPORATION

Income statement presentation

	1980	1979	1978
Income Before Extraordinary Item	\$ 29,737	\$ 22,162	\$ 17,187
Extraordinary Item, Net of Income Tax Effect and Minority Interest (Note 20)	(10,991)	-	-
Net Income	<u>\$ 18,746</u>	<u>\$ 22,162</u>	<u>\$ 17,187</u>
Per Share			
Income Before Securities Gains or Losses and Extraordinary Item	\$ 7.02	\$ 5.53	\$ 4.33
Income Before Extraordinary Item	7.09	5.30	4.12
Net Income	4.47	5.30	4.12
Dividends	1.88	1.85	1.76
Average Shares Outstanding	4,193,949	4,179,812	4,173,487

Footnote disclosure

During 1980, the Corporation reached a settlement of the lawsuit brought against it by the First Wisconsin Mortgage Trust, an unaffiliated entity. As a result of the settlement, the Corporation and certain of its subsidiaries transferred to the Trust cash and assets with a market value of \$20,817,000. The effect of the settlement, net of applicable tax, is recorded as an extraordinary charge on the consolidated and Corporation only statements of income. The settlement disposes of all claims brought against the Corporation by the Trust.

BANK OF NEW YORK COMPANY, INC.

Income statement presentation

	1980	1979	1978
Income Before Extraordinary Charge	\$48,767,152	\$43,559,787	\$37,211,388
Extraordinary Charge (less tax effect of \$8,961,746)	(6,215,130)	-	-
Net Income	<u>\$42,552,022</u>	<u>\$43,559,787</u>	<u>\$37,211,388</u>
Per Share Data			
Primary*:			
Income Before Securities Transactions and Extraordinary Charge	\$7.76	\$7.11	\$6.55
Income Before Extraordinary Charge	\$7.49	\$7.05	\$6.19
Net Income	\$6.53	\$7.05	\$6.19
Fully Diluted:			
Income Before Securities Transactions and Extraordinary Charge	\$6.73	\$5.92	\$5.36
Income Before Extraordinary Charge	\$6.50	\$5.88	\$5.07
Net Income	\$5.69	\$5.88	\$5.07

*6,513,526 shares in 1980; 6,175,555 in 1979; 6,008,865 in 1978

Footnote disclosure

The Bank was named as a defendant in two legal actions arising out of its having served as custodian for mutual funds formerly managed and controlled by IOS, Ltd.

In December of 1980, the Company entered into a settlement agreement resolving the two legal

actions. Under the terms of the agreement, the Company will make payments totalling \$20 million over a 39-month period. The present value of these payments amounting to \$15,177,000, net of applicable income taxes of \$8,962,000, has been included in the accompanying consolidated statements of income as an extraordinary charge.

EXAMPLES Discontinued operations

UNION COMMERCE CORPORATION

Income statement presentation

	1980	1979	1978
Income (loss) from continuing operations before extraordinary item	\$ 5,667	\$(8,710)	\$ 3,531
Discontinued operations			
Income (loss) from discontinued operations	203	(290)	472
Loss on sale of discontinued operations--net of tax	(525)	-	-
Income (loss) from discontinued operations	(322)	(290)	472
Income (loss) before extraordinary item	5,345	(9,000)	4,003
Extraordinary item--tax benefit resulting from utilization of loss carryforwards			
From continuing operations	1,037	-	-
From discontinued operations	338	-	-
Total extraordinary item	1,375	-	-
Net income (loss)	<u>\$ 6,720</u>	<u>\$(9,000)</u>	<u>\$ 4,003</u>

Per common share

On average outstanding common shares	3,792,533	3,777,271	3,774,399
Income (loss) from continuing operations before securities transactions and extraordinary item	\$1.27	\$(2.46)	\$.70
Income (loss) from discontinued operations	(.08)	(.08)	.13
Income (loss) before extraordinary item	1.18	(2.62)	.83
Extraordinary item--tax loss carryforwards			
From continuing operations	.27	-	-
From discontinued operations	.09	-	-
Net income (loss)	1.54	(2.62)	.83

Footnote disclosure

In November, 1980, the Corporation entered into an agreement to sell its 49.9% interest in Clarion Capital Corporation, a small business investment company. This transaction is contingent upon approval by the Small Business Administration, and the Corporation anticipates that the transaction will be approved and finalized in early 1981. The transaction resulted in a loss of \$525,000 (net of a \$338,000 tax provision) and is included under the caption "Discontinued Operations" in the accompanying consolidated statement of income.

NORTHWESTERN FINANCIAL CORPORATION

Income statement presentation

	1980	1979	1978
Income from continuing operations	<u>\$12,778</u>	<u>\$11,577</u>	<u>\$ 9,123</u>
Discontinued operations			
Equity in net income (loss)	198	(95)	2,210
Gain (loss) on disposal, net of related income tax effects	<u>1,167</u>	<u>1,789</u>	<u>(123)</u>
Income from discontinued operations	<u>1,365</u>	<u>1,694</u>	<u>2,087</u>
Net income	<u>\$14,143</u>	<u>\$13,271</u>	<u>\$11,210</u>
Income per share of common stock:			
Income before securities transactions	\$ 2.64	\$ 2.28	\$ 1.77
Income from continuing operations	2.48	2.24	1.77
Net income	<u>2.75</u>	<u>2.57</u>	<u>2.17</u>
Average shares outstanding (in thousands)	<u>5,149</u>	<u>5,165</u>	<u>5,155</u>

Footnote disclosure

Effective February 28, 1978, a subsidiary of the Company sold its investment in the common stock of Northwestern Insurance Company resulting in a loss on disposal of \$123,000, including income taxes of \$75,000. The equity in the net loss of such unconsolidated wholly-owned insurance company subsidiary included in the accompanying consolidated statement of income for 1978 amounted to \$43,000.

On January 12, 1979, the Company sold its investment in the common stock of Northwestern Security Life Insurance Company, a wholly-owned unconsolidated subsidiary, resulting in a gain of \$1,789,000 net of applicable income taxes of \$3,480,000. Under the terms of the agreement, the purchaser assumed operations of the insurance company effective January 1, 1979. The Company's equity in net income of such subsidiary included in the accompanying statement of income for 1978 amounted to \$1,914,000. Dividends received by the parent company from Northwestern Security Life Insurance Company in 1978 were \$2,675,000.

On December 31, 1980, a subsidiary of the Company (M & J Group, Inc.) sold its investment in the common stock of its consumer finance subsidiary, M & J Financial Corporation, resulting in a gain of \$1,167,000, net of income taxes of \$298,000. The equity in the net income (loss) of the finance subsidiary included in the accompanying statements of income is \$198,000 for 1980, \$(95,000) for 1979 and \$339,000 for 1978. Dividends received by the parent company from M & J Group, Inc. in 1980 were \$9,400,000.

Summary financial operating data relating to these discontinued operations for years reported are as follows:

	1980	1979	1978
Total income	\$9,426,000	\$8,046,000	\$22,591,000
Total expenses	<u>9,038,000</u>	<u>8,196,000</u>	<u>19,271,000</u>
Income (loss) before income taxes	390,000	(150,000)	3,320,000
Income taxes (benefits)	<u>192,000</u>	<u>(55,000)</u>	<u>1,110,000</u>
Net income (loss)	<u>\$ 198,000</u>	<u>\$ (95,000)</u>	<u>\$ 2,210,000</u>

38 Statement of Income

NEW JERSEY NATIONAL CORPORATION

Income statement presentation

	1980	1979	1978
Income from continuing operations	\$ 6,201,598	\$ 7,017,327	\$ 7,360,352
Discontinued operations			
Income (loss) from discontinued operations of subsidiary, net of tax effect of (\$236,549) for 1980, \$176,565 for 1979, and (\$131,285) for 1978	(271,627)	213,446	(152,522)
Gain on sale of discontinued operations of subsidiary net of tax effect of \$1,355,870	1,591,674	-	-
Income before net gains (losses) on sale of securities	7,521,645	7,230,773	7,207,830
Securities gains (losses) net of tax effect of \$-0- for 1980, (\$337,967) for 1979 and \$7,007 for 1978	(7,521,645)	(381,357)	7,591
Net Income	<u>\$ -0-</u>	<u>\$ 6,849,416</u>	<u>\$ 7,215,421</u>
Average number of shares outstanding	1,780,056	1,780,056	1,780,056
Per share data			
Income from continuing operations before net income (loss) on discontinued operations and securities transactions	\$3.48	\$3.94	\$4.13
Net income (loss) from discontinued operations	\$(.15)	\$.12	\$(.09)
Net income	-	\$3.85	\$4.05
Dividends paid	\$2.30	\$2.30	\$2.075

Footnote disclosure

On December 31, 1980 the corporation discontinued the mortgage banking operations of its wholly-owned subsidiary, Underwood Mortgage & Title Co., by the sale of the company's servicing portfolio for cash of approximately \$3,300,000. Accordingly, such operations have been classified as discontinued operations and provision has been made for all anticipated costs.

Operating results of the mortgage banking operation on the Consolidated Statement of Income are as follows:

	Year Ended December 31		
	1980	1979	1978
Revenues	\$3,917,798	\$3,557,630	\$2,189,046
Operating expenses	4,425,974	3,167,619	2,472,853
(Loss) income before taxes	(508,176)	390,011	(283,807)
Income tax (benefit)	(236,549)	176,565	(131,285)
Net (loss) income from operations	<u>\$ (271,627)</u>	<u>\$ 213,446</u>	<u>\$ (152,522)</u>

CHAPTER 3

Notes to Financial Statements

Notes to financial statements include disclosures required by generally accepted accounting principles, and for public companies, certain additional disclosure requirements of Regulation S-X. Also, supplemental information required by FASB Statement No. 33 may be included in the notes to financial statements (see Chapter 6). Examples of footnote disclosures are included in every chapter depending upon the subject matter. This chapter focuses on new disclosures in 1980 and several other significant disclosures which indicate trends.

Compensated absences

In 1980, the FASB issued Statement No. 43, "Accounting for Compensated Absences." This statement requires accrual of the liability for costs of absences for vacations, illnesses, holidays and other personal absences if certain conditions are met.

The statement is effective for fiscal years beginning after December 15, 1980, with earlier application encouraged, and is to be applied retroactively. If the effect of the implementation of the Statement is material and a commercial bank or holding company elects not to adopt its provisions before the effective date, the estimated effects of the future charge to operations should be disclosed. Among the surveyed companies there were one commercial bank and five holding companies that made disclosures about compensated absences.

Table 9. Compensated Absences*

	Commercial Banks	Holding Companies
Accounting for compensated absences discussed in:		
Accounting policy footnote		40%
Separate footnote	100%	60
	100%	100%
Types of disclosures made were:		
Cumulative effect		40%
Estimated effect	100%	60
	100%	100%
Number of companies making this disclosure	1	5

*Requirements of Statement not effective in 1979.

Interim financial data

Disclosure of comparative unaudited quarterly financial data is no longer required to be made in financial statements of companies which have securities registered with the SEC. However, these disclosures are still required in annual shareholders reports. Federal banking regulators have not changed their requirement for disclosure of quarterly data if the commercial banks reporting to them under the '34 Act meet certain size and other criteria. Although interim information is generally marked "un-audited," certain review procedures must be performed by the company's independent accountants. Of the reports that included a footnote on quarterly operations in 1980, 3% of the commercial banks and 5% of the holding companies referred to independent accountants review of the quarterly data.

Companies affected by this requirement are generally those listed on national stock exchanges or active OTC companies. The quarterly data may be omitted if total assets at the latest fiscal year end were less than \$200 million, or income after taxes but before extraordinary items and the cumulative effect of an accounting change for at least one of the last three years was less than \$250,000.

Table 10. Reports That Include Interim Financial Data*

	Commercial Banks	Holding Companies
Quarterly data:		
Included in annual report but not in the notes to financial statements	12%	64%
In the notes to financial statements	48	33
Not included	40	3
	100%	100%

*Not surveyed in 1979.

Publicly traded companies that issue interim financial information and do not issue a separate fourth quarter report or disclose the results of the fourth quarter in their annual reports are required by APB Opinion No. 28 to disclose the following fourth quarter activities in their annual reports:

Disposal of a segment of a business

Extraordinary, unusual or infrequently occurring items

Aggregate effect of year-end adjustments material to the results of the fourth quarter (similar in some respects to changes in accounting estimates)

Of the surveyed companies reporting quarterly data, 3% of the holding companies (none of the commercial banks) included disclosures of fourth quarter segment disposals or extraordinary, unusual or infrequently occurring items and 6% of them (none of the commercial banks) included disclosures of material fourth quarter adjustments.

Related party transactions

Statement on Auditing Standards No. 6, "Related Party Transactions," requires the independent auditor to identify certain types of related party transactions and that such transactions should be adequately disclosed in the financial statements of the reporting entity.

In addition, Article 9 of Regulation S-X requires disclosure of loans to or borrowings from directors, executive officers, or principal holders of equity securities when the aggregate amount of such loans or borrowings exceeds 5% of shareholders' equity. Loans and borrowings include outstanding amounts with any businesses in which those persons have a 10% interest, with trusts and estates in which they are involved, and with relatives living with them.

Table 11 and the examples that follow deal with the most frequent types of related party transactions disclosed. A reporting entity could have disclosure of related party transactions concerning both loans and leases; therefore, a surveyed entity could be accounted for in each of the captions cited in this table. "Other" types of related party transactions were cited in 1980 by 5% of the holding companies.

Related party transactions are generally disclosed in the notes to financial statements. However, 36% of the 1980 surveyed holding companies made related party disclosures on the face of either the balance sheet or income statement.

The table indicates an increasing trend in the number of related party transaction disclosures. In 1980, 72% of the reports surveyed contained disclosure of related party transactions while 58% of the surveyed reports contained such disclosures in 1979.

Table 11. Related Party Transactions

	Commercial Banks		Holding Companies	
	80	79	80	79
Reports in which related party transactions were:				
Disclosed	68%	51%	74%	60%
Not disclosed	32	49	26	40
	100%	100%	100%	100%
Reports that disclosed:				
Loans	86%	78%	97%	96%
Lease arrangements	10	19	5	10
Deposits or indebtedness	17	19	5	8

Foreign activities and other segment information

FASB Statement No. 14, "Financial Reporting for Segments of a Business Enterprise," requires that disclosure of industry segments, foreign operations, export sales and major customers be included as a part of the financial statements. Banking is generally considered a single industry.

Disclosures applicable to banks might include:

Revenue, operating income and asset data about significant foreign operations in the aggregate and by significant geographic areas.

The dependence on a single customer(s) and the amount of revenue from each.

Article 9 of Regulation S-X, which applies to all financial statements included in SEC filings, also requires disclosure of certain foreign activities including information relating to activities with customers domiciled in foreign countries.

Information relative to foreign activities was disclosed by 27% of the commercial banks (28% in 1979), and 43% of the holding companies (42% in 1979). Of those including foreign activities information, approximately 53% provided data by geographic areas in 1980 compared to 47% in 1979. None of the companies surveyed reported dependence on a single customer either in 1980 or 1979.

In 1980 approximately 82% of the foreign activities disclosures discussed foreign currency assets and liabilities, while 57% discussed foreign branches and subsidiaries. Twenty-seven percent of the companies that disclosed foreign activities included disclosures of foreign exchange gains or losses.

The following table reflects the topics most frequently included in foreign activities disclosure.

Table 12. Topics Included in Foreign Activities Disclosure

	80	79
Reports with the following foreign disclosures:		
Loans	83%	72%
Allowances for loan losses	59	41
Bank balances outside the U.S.	63	46
Deposits	83	59
Other borrowings	50	34
Revenue	70	59
Expenses	59	52
Income before taxes	68	55
Net income	62	53
Estimates and assumptions used	65	54
Method of pricing transfers	34	38
Nonbanking foreign activities	5	*
Reports that disclosed the following foreign activity information in the accounting policy footnote:		
Foreign branches and/or subsidiaries	15	*
Method of recognizing income from foreign branches or subsidiaries	12	*
Method of translation of foreign currencies	13	*
Foreign exchange transactions	22	*
Basis of translation	22	*
Disposition of gain or loss on translation	20	*

*Not surveyed in 1979.

Acquisitions

Thirty-eight percent of the surveyed companies reported at least one acquisition during 1980 compared to 37% in 1979. In 1980, 19% of the companies reporting acquisitions reported them as poolings, while 77% reported the acquisitions as purchases. The remaining 4% had more than one acquisition and they reported at least one as a purchase and at least one as a pooling.

Accounting for goodwill

Regulatory authorities generally require banks to write off goodwill to undivided profits. However, holding companies can record goodwill as long as it is not reflected in the separate financial statements of subsidiary banks. Twenty-two percent (13% in 1979) of the commercial banks included in the survey indicated that they had charged goodwill to undivided profits. The majority of commercial banks making such disclosures also disclosed the amounts or indicated that they were not material. Three of the surveyed commercial banks received qualified opinions from their independent accountants as a result of this departure from generally accepted accounting principles.

Two percent of the surveyed commercial banks and 44% of the surveyed holding companies disclosed their methods of amortizing goodwill in their 1980 financial statements.

Commitments and contingencies

Federal bank regulatory authorities require disclosure of the amount, if material, of standby letters of credit at the balance sheet date for reports filed with the agencies. Other disclosures typically found in this footnote are pending litigation arising in the normal course of business and a general statement as to other commitments.

Table 13. Commitments and Contingencies

	Commercial Banks		Holding Companies	
	80	79	80	79
Reports in which the following were disclosed:				
Standby letters of credit	85%	87%	94%	87%
Commercial letters of credit	3	2	7	8
Loan commitments	5	4	14	9
Sinking fund or redemption requirements for capital stock or long-term debt	39	*	48	*
Guarantee of indebtedness	3	*	9	*
Contingencies	73	83	84	83

*Not surveyed in 1979.

Dividend restrictions

Article 9 of Regulation S-X and federal bank regulators' '34 Act disclosure rules require disclosure of the most restrictive limitation on the availability of undivided profits or retained earnings for the payment of dividends. Such restrictions can be caused by regulation or by contractual agreements such as those in a debt obligation. In 1980, 57% of the surveyed commercial banks and 48% of the surveyed holding companies disclosed restrictions which limited payment of dividends to shareholders.

In Staff Accounting Bulletin No. 26 the SEC stated that disclosure should be made of the amount of dividends which can be paid by subsidiary banks to the parent company without regulatory approval. Eighty-two percent of the surveyed holding companies made this disclosure.

EXAMPLES Compensated absences (footnotes)**NORTHERN STATES BANCORPORATION****Compensated Absences**

In November 1980, the Financial Accounting Standards Board (FASB), issued Statement No. 43 "Accounting for Compensated Absences." The statement requires a liability to be accrued for vacation benefits that employees have earned but have not yet taken, whereas the Company presently accounts for vacation benefits as paid. The effective date of the statement is for fiscal years beginning after December 15, 1980 and shall be applied retroactively. Had the Company elected to adopt Statement No. 43 at December 31, 1980, "Accrued expenses and other liabilities" would have increased by approximately \$1.1 million. The effect on any individual year's income statement is not material.

VIRGINIA NATIONAL BANKSHARES, INC.**Reclassifications and Change in Accounting**

Financial statements for prior years have been revised for reclassification of certain items in order to conform to current presentation. The Company elected early adoption of FASB No. 43, Accounting for Compensated Absences. Since the change in accounting policy was immaterial in any year, the liability for years prior to 1980 has been accounted for by reducing previously reported retained earnings.

FIRST PEOPLES BANK OF NEW JERSEY**Accounting Change to be Adopted in 1981**

The Bank's present policy is to account for the costs of employees' vacation pay benefits as they are paid rather than when earned. This policy has not had a material effect on net earnings of any individual year. However, the Financial Accounting Standards Board recently issued Statement No. 43 which is effective for years beginning after December 15, 1980, and requires that such costs be accrued as earned. The Bank is currently accumulating the necessary data and, effective January 1, 1981, will begin accruing vacation pay as it is earned. The Statement requires retroactive restatement of prior period financial statements which will result in an estimated decrease of \$330,000 in undivided profits as of December 31, 1980, including decreases in reported net earnings for 1980, 1979, and 1978 of approximately \$15,000 (\$.01 per common share) in each year.

LINCOLN FIRST BANKS INC.

The financial statements contained in this report reflect the Company's policy of accounting for the costs of employees' vacation pay benefits on a cash basis as paid. Effective January 1, 1981, the Company adopted Financial Accounting Standards Board Statement No. 43, "Accounting for Compensated Absences," which requires that the Company accrue for employees' rights to receive compensation for future absences as such benefits are earned. Accordingly, the Company's financial statements for prior years will be restated in 1981. Had the application of Statement No. 43 been reflected in the financial statements contained in this report, the cumulative net effect of this change would be recorded as a \$1,096,000 reduction to the beginning balance of 1978 retained earnings, and Net Income for 1980, 1979 and 1978 would be reduced by \$235,000 (\$.06 per fully diluted common share), \$151,000 (\$.04 per fully diluted common share) and \$95,000 (\$.02 per fully diluted common share), respectively.

EXAMPLES Interim financial data (footnotes)

FOURTH FINANCIAL CORPORATION

Quarterly Financial Data (unaudited)

The following is a summary of the unaudited quarterly results of operations (in thousands except for per share data):

	Total Operating Income	Income Before Securities Transactions	Net Income	Per Share		
				Income Before Securities Transactions	Net Income	Cash Dividends
1979						
1st quarter	\$14,689	\$1,550	\$1,551	\$.53	\$.54	\$.20
2nd quarter	15,180	1,795	1,740	.62	.60	.21
3rd quarter	16,871	1,847	1,794	.64	.61	.21
4th quarter	18,700	1,999	1,597	.69	.55	.23
1980						
1st quarter	\$21,675	\$2,459	\$2,319	\$.84	\$.80	\$.23
2nd quarter	21,390	2,548	2,460	.88	.84	.23
3rd quarter	20,659	2,424	2,426	.83	.83	.26 1/4
4th quarter	25,439	2,945	2,391	1.00	.81	.26 1/4

The quarterly price range of common stock as reported by NASDAQ is as follows:

	1980				1979			
	Bid		Asked		Bid		Asked	
	High	Low	High	Low	High	Low	High	Low
1st quarter	14-1/2	12-3/4	15-1/2	13-5/8	13-7/8	13-1/8	14-1/2	13-7/8
2nd quarter	13-3/8	12-3/4	14-3/8	13-5/8	13-5/8	13-1/8	14-3/8	13-7/8
3rd quarter	17-1/4	13-3/8	18	14-3/8	14-3/8	13-5/8	15	14-3/8
4th quarter	18-1/2	17-1/4	19-1/2	17-3/4	14-3/8	14-3/8	15-1/4	15

ALLIED BANCSHARES, INC. (Supplementary Data)

Quarterly Results of Operations (unaudited)

The following is a tabulation of the unaudited quarterly results of operations for the two years ended

December 31, 1980 as restated for the pooling of interests and the 1980 and 1979 stock splits as previously described. The difference between the restated quarterly results due to the pooling of interests and those previously reported are not significant to the earnings per share data presented (dollars in thousands, except per share data).

	1980				1979			
	Three Months Ended				Three Months Ended			
	March 31	June 30	Sept. 30	Dec. 31	March 31	June 30	Sept. 30	Dec. 31
Interest income	\$67,594	66,454	62,767	79,799	41,146	44,267	47,572	54,897
Net interest income	27,708	26,035	29,010	37,907	19,885	21,397	23,176	24,708
Provision for possible loan losses	3,589	2,187	4,545	1,391	1,586	2,013	2,245	2,315
Earnings before Federal income taxes and securities transactions	12,338	13,206	13,840	14,969	9,864	10,495	11,154	11,479
Earnings before securities transactions	8,382	8,935	9,465	10,510	6,751	7,054	7,498	7,682
Net earnings	8,382	8,938	9,465	10,510	6,751	7,098	7,497	7,539
Per share data:								
Earnings before securities transactions	.77	.81	.84	.94	.61	.65	.69	.70
Net earnings	.77	.81	.84	.94	.61	.65	.69	.69

The loss from the misappropriation of \$9,952,584 was recorded in the fourth quarter of 1980.

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SEAFIRST CORPORATION

Summary of Quarterly Financial Information (Unaudited)

Quarterly financial information for 1980, 1979 and 1978 is as follows (in thousands, except per share):

1980	First	Second	Third	Fourth	Total
Net Interest Income	\$80,473	\$78,267	\$75,686	\$91,203	\$325,629
Provision for Possible Loan Losses	5,400	6,700	4,100	6,900	23,100
Non-Interest Income	14,043	19,871	18,922	18,108	70,944
Non-Interest Expense	65,102	67,443	66,714	77,877	277,136
Income Before Securities Transactions	16,643	17,158	17,485	18,494	69,780
Net Income	16,482	16,240	17,484	17,960	68,166
Per Share:					
Income Before Securities Transactions	\$1.10	\$1.13	\$1.15	\$ 1.21	\$4.59
Net Income	1.09	1.07	1.15	1.17	4.48
Average Number of Common Shares Outstanding	15,136	15,190	15,234	15,281	15,211
1979	First	Second	Third	Fourth	Total
Net Interest Income	\$66,599	\$69,663	\$72,685	\$82,805	\$291,852
Provision for Possible Loan Losses	3,300	3,900	4,400	6,220	17,820
Non-Interest Income	12,618	13,806	15,907	16,126	58,457
Non-Interest Expense	53,072	56,996	58,304	68,326	236,698
Income Before Securities Transactions	15,767	15,503	17,069	17,157	65,496
Net Income	16,605	15,393	16,914	16,499	65,411
Per Share:					
Income Before Securities Transactions	\$1.05	\$1.03	\$1.13	\$1.14	\$4.35
Net Income	1.04	1.02	1.12	1.10	4.28
Average Number of Common Shares Outstanding	15,042	15,045	15,054	15,066	15,052
1978	First	Second	Third	Fourth	Total
Net Interest Income	\$51,719	\$56,651	\$62,053	\$66,578	\$237,001
Provision for Possible Loan Losses	2,733	4,419	4,650	4,503	16,305
Non-Interest Income	13,986	12,480	15,898	12,463	54,827
Non-Interest Expense	45,640	47,482	50,333	51,482	194,937
Income Before Securities Transactions	11,816	12,121	14,606	15,214	53,757
Net Income	11,814	12,122	14,605	15,219	53,760
Per Share:					
Income Before Securities Transactions	\$.88	\$.88	\$.97	\$1.02	\$3.75
Net Income	.88	.88	.97	1.02	3.75
Average Number of Common Shares Outstanding	13,500	13,769	15,026	15,039	14,339

MELLON NATIONAL CORPORATION

Quarterly Consolidated Statement of Income

(in millions except per share amounts)

		1979				1980			
		March 31	June 30	Sept. 30	Dec. 31	March 31	June 30	Sept. 30	Dec. 31
Interest income	Loans	\$157.8	\$166.3	\$183.0	\$215.8	\$228.1	\$240.3	\$212.5	\$263.0
	Money market investments:								
	Interest-bearing deposits with banks	36.3	36.7	50.6	64.5	64.7	86.6	86.0	101.0
	Federal funds sold and securities purchased under agreements to resell	8.4	8.5	8.0	12.5	15.4	16.0	7.3	12.4
	Other	3.6	4.9	6.5	8.5	10.0	11.3	8.8	8.2
	Investment securities:								
	U.S. Treasury and agency securities	4.6	4.1	3.8	3.7	3.4	6.0	10.3	10.7
	Obligations of states and political subdivisions	7.8	8.2	8.6	7.8	7.9	7.7	7.8	7.7
	Other	1.4	1.5	1.5	1.5	1.3	1.5	1.6	1.7
	Trading account, net	.8	1.0	1.7	1.9	2.3	2.0	3.0	4.0
	Other:								
	Fees on loans	5.0	5.8	6.4	7.4	6.5	7.0	7.6	7.4
	Lease financing income	2.5	2.5	2.7	2.8	2.8	3.0	3.3	3.4
	Total interest income	228.2	239.2	272.8	326.4	342.4	381.4	348.3	419.5
Interest expense	Deposits	113.6	118.0	132.1	178.0	182.4	219.9	192.3	223.4
	Federal funds purchased and securities sold under agreements to repurchase	29.8	34.1	42.5	36.8	42.9	39.5	46.0	64.0
	Commercial paper	4.4	4.2	4.7	9.5	18.3	23.5	15.1	29.3
	Other funds borrowed	2.7	3.1	6.9	4.7	6.0	4.2	5.7	8.0
	Notes and debentures (with original maturities over one year)	3.7	4.9	10.9	11.3	12.1	11.2	9.5	11.0
	Total interest expense	154.2	164.3	197.1	240.3	261.7	298.3	268.6	335.7
Net interest income	Net interest income	74.0	75.2	75.7	86.1	80.7	83.1	79.6	83.8
	Provision for possible credit losses	7.2	6.3	6.2	8.2	8.9	11.0	1.8	6.7
	Net interest income after provision for possible credit losses	66.8	68.9	69.5	77.9	71.8	72.1	77.8	77.1
Operating income	Service charges, fees and commissions	9.0	9.0	10.0	11.2	11.7	12.5	12.4	13.3
	Trust Department fee income	5.9	6.0	6.0	6.5	6.6	6.6	7.1	8.0
	Trading account profits and commissions	.2	.3	.1	.1	.1	1.6	(.8)	.7
	Other income	3.1	5.7	4.5	3.4	6.0	7.6	6.7	3.1
	Total operating income	18.2	21.0	20.6	21.2	24.4	28.3	25.4	25.1

(continued)

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		1979				1980			
		March 31	June 30	Sept. 30	Dec. 31	March 31	June 30	Sept. 30	Dec. 31
Operating expense	Salaries and wages	23.5	24.6	26.1	26.8	27.4	28.0	29.0	30.2
	Pension, incentive and other employee benefits	6.7	7.4	7.6	8.6	8.4	8.7	9.3	9.0
	Equipment expense	4.1	4.0	3.6	4.8	5.7	5.2	5.0	5.4
	Net occupancy expense	3.7	4.1	4.2	3.8	4.2	4.4	5.0	4.1
	Shares, capital and franchise taxes	2.9	3.0	2.9	2.9	3.0	3.0	2.9	(.8)
	Other expense	11.6	13.3	13.3	18.2	14.9	14.9	14.7	17.0
	Total operating expense	52.5	56.4	57.7	65.1	63.6	64.2	65.9	64.9
Earnings	Income before income taxes and securities transactions	32.5	33.5	32.4	34.0	32.6	36.2	37.3	37.3
	Applicable U.S. and foreign income taxes	8.3	8.2	6.7	8.1	6.5	7.8	8.2	6.7
	Income before securities transactions	24.2	25.3	25.7	25.9	26.1	28.4	29.1	30.6
	Securities gains/(losses), net of income tax effect	(1.3)	-	(3.2)	(.2)	(1.4)	.1	(.2)	(.1)
	Net income	\$ 22.9	\$ 25.3	\$ 22.5	\$ 25.7	\$ 24.7	\$ 28.5	\$ 28.9	\$ 30.5
Per share	Income before securities transactions	\$ 1.23	\$ 1.29	\$ 1.31	\$ 1.32	\$ 1.33	\$ 1.45	\$ 1.48	\$ 1.56
	Net income	1.17	1.29	1.15	1.31	1.26	1.45	1.47	1.55
	Cash dividends	.46	.46	.46	.46	.46	.46	.46	.51

EXAMPLES Related party transactions (footnotes)

UNITED AMERICAN BANK IN KNOXVILLE

Related Party Transactions

Certain directors and officers of the Bank, including companies in which they are officers or have significant ownership, were customers of, and had other transactions with the Bank in the ordinary course of business during 1980 and 1979. Total loans to these persons at December 31, 1980 and 1979, amounted to approximately \$33,750,500 and \$28,371,000, respectively. Also at December 31, 1980, standby letters of credit by the Bank to directors and officers of the Bank amounted to \$3,362,600.

Other transactions with these parties are summarized as follows:

	1980	1979
Legal services provided	\$235,310	\$209,000
Architectural services	49,683	117,840
Acquisitions and maintenance of fixed assets	33,600	129,770

The Bank also has transactions with relatives of certain directors and shareholders. Total loans to these persons at December 31, 1980 and 1979, amounted to \$6,872,000 and \$6,300,000 respectively.

Included in the Bank's leased premises are certain properties, with annual rentals of approximately \$1,377,200, owned by related parties. Additionally, the Bank paid to relatives of certain officers and directors approximately \$220,800 in 1980 and \$255,600 in 1979 for the acquisition of fixed assets and had \$3,071,300 in standby letters of credit at December 31, 1980.

Certain principal shareholders of the Bank also have financial interests in several other banks. The Bank has customary correspondent relationships and other transactions with certain of these banks including correspondent accounts, loan participations and investment and federal funds transactions. Also, the Bank paid fees to an affiliated corporation covering data processing services amounting to \$1,874,900 for 1980 and \$1,682,500 for 1979.

FIRST VIRGINIA BANKS, INC.

Related Party Transactions

Directors and officers of the Corporation and their affiliates were customers of, and had other transactions with, the Corporation in the ordinary course of business. The Corporation has made residential mortgage loans at favorable rates to officers of the Corporation and its subsidiaries who have been relocated for the convenience of the Corporation. Other loan transactions with directors and officers were made on substantially the same terms as those prevailing for comparable loans to other persons and

did not involve more than normal risk of collectibility or present other unfavorable features. As of December 31, 1980, 1979 and 1978, loans to directors and executive officers of the Corporation and its principal subsidiary, including certain of their business interests and family members, totaled \$10,800,000, \$11,100,000 and \$15,400,000, respectively.

The Corporation sponsored a real estate investment trust and a subsidiary served as its advisor until December 31, 1975. The Corporation has participated with other lending institutions in a credit agreement with the Trust. Loans to the Trust averaged \$3,676,000 during 1979 and \$7,407,000 during 1978 and had an outstanding balance of \$6,011,364 at December 31, 1978. There was no balance at December 31, 1979 or 1980. During 1976, the interest paid by the Trust to the participants in the credit agreement was reduced from 125% of the prime lending rate to 4% per annum with the difference between the two rates contingently payable from future income of the Trust, if earned. During 1979, the Trust and the participants in the credit agreement entered into an agreement whereby the Trust transferred certain commercial and/or residential mortgage loans to each of the lenders in exchange for the cancellation of the Trust's remaining indebtedness and their right to any contingent interest which might become payable in the future. As a result of such agreement and an earlier exchange of mortgage loans during 1979, the Corporation received commercial and residential mortgage loans with an aggregate principal amount of \$4,053,303 for the cancellation of \$3,919,963 of principal amount of its loan to the Trust. The mortgage loans bear interest at rates from 8% to 10% which are lower than the predominant rates on loans being made on the dates of the exchanges. A loss of \$131,625 was charged to the allowance for loan losses to reflect the estimated reduction in value of the mortgage loans resulting from the lower interest rates less the discount received from the Trust in the exchange.

The Corporation's subsidiaries have entered into other transactions which include participations in loans made by the Trust to others, commitments to provide or obtain permanent financing for borrowers of the Trust, and providing permanent financing, in some cases at less than market rates, to purchasers of condominium units in projects for which the Trust has provided construction financing.

SUBURBAN BANCORPORATION

Loans to Related Parties

In the ordinary course of business, directors and officers (and their affiliates) of Bancorp were customers of, and had other transactions with, Bancorp. Our policy is to provide home and consumer loans to officers and employees at favorable interest rates, with advantages of 1% for mortgage and personal loans, and up to 6% on credit card loans, and we consider this policy to be sound business practice. In 1979, Bancorp terminated its policy of providing interest rate reductions on new loans to executive officers. Other loan transactions with directors and officers were made on substantially the same terms as those prevailing at the time for

comparable loans to other persons and neither involved more than normal risk of collectibility nor presented other unfavorable features.

Such loans had outstanding balances, which approximate the average balances of \$19,597,000 at December 31, 1980 and \$30,232,000 at December 31, 1979. Included in those amounts are loans to one director and his affiliates which exceeded 5% of stockholders' equity and were outstanding at December 31, 1980, and loans to three directors and their affiliates which exceeded 5% of stockholders' equity and were outstanding at December 31, 1979, with balances on those dates aggregating \$5,903,000 and \$16,437,000 respectively. None of these loans individually exceeded the bank's lending limits.

INDIANA NATIONAL CORPORATION

Related Party Transactions

Directors and Officers: Certain directors and senior officers of Indiana National Corporation, including their families and companies in which they are principal owners, were loan customers of and had other transactions with the Corporation or its subsidiaries in the ordinary course of business during 1980 and 1979. Consolidated loans outstanding and unused commitments to these persons were \$16,900,000 and \$13,700,000, respectively, at December 31, 1980 and \$11,100,000 and \$23,500,000, respectively, at December 31, 1979. All of the loans and commitments were made on substantially the same terms, including interest rate and collateral as those prevailing at the time for comparable transactions with unrelated parties. The amounts do not include loans or commitments made in the ordinary course of business to companies in which the Corporation's officers or directors are either officers or directors of the other companies but are not principal owners of such companies.

Affiliated Companies: In accordance with Statement on Auditing Standards No. 6, Indiana Financial Investors, Inc., an Indiana corporation, is deemed to be an affiliate. Indiana Realty Advisers, Inc., a subsidiary of Indiana National Corporation, provides investment advisory services to Indiana Financial Investors, Inc., and has a 4.3% equity interest in the corporation. In a prior year, Indiana Realty Advisers, Inc. reduced its investment in the corporation to market, which was less than cost, by a direct charge to retained earnings of \$893,750. In 1980 Indiana Realty Advisers, Inc. determined its original investment in the corporation of \$1 million had become permanently impaired. The prior direct charge to retained earnings of \$893,750 was restored and the estimated permanent impairment of \$600,000 was charged against income of both Indiana Realty Advisers, Inc. and Indiana National Corporation through consolidation. In 1980 and 1979 Indiana Financial Investors, Inc., paid advisory fees to Indiana Realty Advisers, Inc. of \$163,000 and \$123,000, respectively. The Bank and seven other banks had a \$31,500,000 revolving credit agreement with Indiana Financial Investors, Inc., that expired on October 31, 1980. Indiana Financial Investors, Inc., and its lenders are presently negotiating new loan arrangements. Interest on the debt was paid through December 1, 1980. Indiana Financial Investors, Inc. (continued)

tors, Inc., has now informed the bank lenders that it will not pay interest until a new loan agreement is concluded. The Bank had loans outstanding to Indiana Financial Investors, Inc., which totaled approximately \$4,700,000 and \$3,900,000 at December 31, 1980 and 1979, respectively.

The Indiana National Bank and Indiana Mortgage Corporation participated or shared collateral with Indiana Financial Investors, Inc., in mortgage loans of approximately \$7,800,000 and \$8,300,000 at December 31, 1980 and 1979, respectively. Their balances in these loans totaled approximately \$1,900,000 and \$2,000,000 at December 31, 1980 and 1979, respectively.

TFAC, Inc., a subsidiary of Indiana National Corporation, had loans of approximately \$5,600,000 and \$3,800,000 at December 31, 1980 and 1979, respectively, to real estate projects which are owned and operated by Indun Realty, Inc.

KEY BANKS INC.

Transactions With Related Parties

Certain executive officers and directors, including their immediate families and organizations of which they are principal owners, of the Corporation and its principal subsidiaries have loan, deposit and other transactions with the subsidiary banks. Such transactions are on substantially the same terms, including interest rates and collateral as to loans, as those prevailing at the time for comparable transactions with others. Total loans to these persons and organizations at December 31, 1980 and 1979 amounted to \$18,726,400 and \$14,013,612, respectively.

Certain directors, and their relatives or organizations with which they are associated for the years ended December 31, 1980, 1979 and 1978 were individually indebted to the Corporation's subsidiaries during these years in amounts of more than \$500,000. The following is a summary of changes in the aggregate amount receivable from these individuals and organizations. The amounts shown are exclusive of installment loans made in the ordinary course of business.

	1980	1979	1978
Balance at Beginning of Year	\$14,670,289	\$22,408,127	\$15,621,186
Loans Made	27,996,207	18,794,897	14,287,870
Loan Repayments	(25,920,867)	(29,396,717)	(10,255,954)
Balance at End of Year	<u>\$16,745,629</u>	<u>\$11,806,307</u>	<u>\$19,653,102</u>
Amount Due Within One Year	\$12,741,782	\$ 9,589,487	\$18,082,147
Amount Due in More than One Year	<u>4,003,847</u>	<u>2,216,820</u>	<u>1,570,955</u>
	<u>\$16,745,629</u>	<u>\$11,806,307</u>	<u>\$19,653,102</u>

The aggregate amount shown is for certain directors as a group numbering

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EXAMPLE Related party transactions (balance sheet)

UNAF ARAB AMERICAN BANK (portions of balance sheet)

	1980	1979
Assets		
Cash and Due from Banks (includes \$6,994,084 in 1980 and \$3,404,079 in 1979 with related parties)	\$ 8,375,316	\$ 9,867,413
Interest-Bearing Deposits (includes \$40,851,681 in 1980 and \$32,785,224 in 1979 with related parties)	490,864,614	365,563,106
Liabilities and Stockholders' Equity		
Deposits:		
Demand (includes \$205,978,226 in 1980 and \$4,391,428 in 1979 from related parties)	\$ 23,451,262	\$ 11,444,675
Time (includes \$5,952,708 in 1980 and \$227,879,657 in 1979 from related parties)	783,488,819	642,412,485
Total Deposits	806,940,081	653,857,160
Federal Funds Purchased and Securities Sold Under Repurchase Agreements (includes \$10,000,000 in 1980 and \$9,207,850 in 1979 from related parties)	128,885,000	80,143,893

EXAMPLES Foreign activities (report text)

IRVING BANK CORPORATION

Summary of Changes in Allowance for Loan Losses
Attributable to International Operations

The accompanying table presents a reconciliation of the portion of the Allowance for Loan Losses attributable to the Corporation's international operations for 1980, 1979 and 1978.

(In Millions)	1980	1979	1978
Balance, January 1	\$14.1	\$ 8.0	\$7.7
Provision charged to operations	9.2	8.0	1.2
Recoveries on loans previously charged off	1.2	-	-
	<u>24.5</u>	<u>16.0</u>	<u>8.9</u>
Less loans charged off	2.3	1.9	0.9
Balance, December 31	<u>\$22.2</u>	<u>\$14.1</u>	<u>\$8.0</u>

Composition of Selected International Liabilities

The accompanying table presents the distribution of selected liabilities attributable to the Corporation's international operations at December 31, 1980, 1979 and 1978. Deposits are distributed based upon the depositors' business classifications. A majority of the deposits in this table are denominated in amounts of \$100,000 or more.

(In Millions)

	1980	1979	1978
Deposits of:			
Banks in Foreign Countries	\$5,141	\$4,255	\$3,512
Foreign Governments, Official Institutions, Central Banks and International Institutions	554	1,110	1,217
Other Deposits	<u>1,996</u>	<u>2,455</u>	<u>1,503</u>
Total	<u>\$7,691</u>	<u>\$7,820</u>	<u>\$6,232</u>
Other Borrowed Funds	<u>\$ 323</u>	<u>\$ 307</u>	<u>\$ 97</u>

Allocation of International and Domestic Income on a Fully Taxable Basis

Interest earned on certain assets (principally obligations of states and political subdivisions) is exempt from Federal taxation. As a result, pre-tax income on these assets is lower than pre-tax income on comparable assets whose income is subject to Federal taxation. In order to fairly evaluate and compare these types of assets on an income and yield basis, income which is exempt from Federal taxation should be increased to the level which it would have been, were it fully taxable. The multiplying factors used to increase this income for subsidiaries located in New York City were 2.12 in 1980 and 1979 and 2.22 in 1978, and for subsidiaries located in other municipalities of New York State were 1.97 in 1980 and 1979 and 2.05 in 1978. These factors were derived by employing the statutory Federal tax rate adjusted for the effects of state and local taxes. The following table presents an allocation of total operating income, income before taxes and securities gains (losses) and income before securities gains (losses) between international and domestic operations on a fully taxable basis.

(In Millions)	Total Operating Income					
	1980		1979		1978	
	Amount	Percent	Amount	Percent	Amount	Percent
International Operations	\$ 909	51%	\$ 621	46%	\$392	42%
Domestic Operations	887	49	727	54	550	58
Consolidated	<u>\$1,796</u>	<u>100%</u>	<u>\$1,348</u>	<u>100%</u>	<u>\$942</u>	<u>100%</u>

(In Millions)	Income before Taxes and Securities Gains (Losses)					
	1980		1979		1978	
	Amount	Percent	Amount	Percent	Amount	Percent
International Operations	\$ 99	55%	\$ 78	54%	\$ 57	48%
Domestic Operations	81	45	66	46	62	52
Consolidated	<u>\$180</u>	<u>100%</u>	<u>\$144</u>	<u>100%</u>	<u>\$119</u>	<u>100%</u>

(In Millions)	Income before Securities Gains (Losses)					
	1980		1979		1978	
	Amount	Percent	Amount	Percent	Amount	Percent
International Operations	\$50	59%	\$38	55%	\$28	51%
Domestic Operations	36	41	31	45	27	49
Consolidated	<u>\$86</u>	<u>100%</u>	<u>\$69</u>	<u>100%</u>	<u>\$55</u>	<u>100%</u>

(continued)

52 Notes to Financial Statements

Basis of Presentation

Substantially all of the Corporation's international business is conducted by Irving Trust. As a result of the close integration of international and domestic activities it is not possible to characterize definitively the business of most operating activities as entirely domestic or international. However, for purposes of presenting the information set forth below, the Corporation's international operations are deemed to consist of Irving Trust's International Banking Group in New York City (including foreign banks in which Irving Trust has a direct equity investment), the Foreign Division of its Worldwide Corporations Group and its foreign branches and Edge Act subsidiaries. Additionally, all foreign exchange transactions and transactions with foreign-domiciled customers generated by Irving Trust's domestic banking activities have been isolated and included as part of international operations, where appropriate, in the information set forth below.

Geographic Distribution of Selected Statement of Income Categories

As discussed above, the close integration of its international and domestic activities prevents a definitive distribution of the Corporation's earn-

ings between those activities. As a result, estimates of the attribution of income and allocation of costs between domestic and international operations are based on certain discretionary and subjective assumptions including: an earnings credit (based upon Irving Trust's average incremental cost of funds for the respective year) to international operations attributable to deposits, primarily demand deposits maintained with Irving Trust's International Banking Group in New York in excess of the funding needs of that Group; an allocation of expenses incurred by one department on behalf of another; adjustments for differences in applicable income tax rates between foreign countries and the United States; and an allocation of the provision for loan losses based upon actual charge-offs for the current year adjusted as deemed necessary to reflect the current risks inherent in the respective international and domestic loan portfolios.

The following tables present allocations of selected statement of income categories between the Corporation's domestic and international operations, based upon the domicile of the customer. The portions of these categories attributable to international operations are distributed by major geographic area. No one foreign country contributed 10 percent or more to the Corporation's total operating income or income before securities gains (losses).

(In Millions)	Total Operating Income					
	1980		1979		1978	
	Amount	Percent	Amount	Percent	Amount	Percent
International Operations:						
Europe	\$ 414	24%	\$ 260	20%	\$184	21%
Latin America & Caribbean	224	13	169	13	106	12
Asia	162	9	99	8	63	7
Africa & Middle East	65	3	45	3	31	3
North America	44	3	48	4	8	1
Total	909	52	621	48	392	44
Domestic Operations	831	48	683	52	502	56
Consolidated	<u>\$1,740</u>	<u>100%</u>	<u>\$1,304</u>	<u>100%</u>	<u>\$894</u>	<u>100%</u>

(In Millions)	Total Operating Expenses					
	1980		1979		1978	
	Amount	Percent	Amount	Percent	Amount	Percent
International Operations:						
Europe	\$ 396	24%	\$ 241	20%	\$166	20%
Latin America & Caribbean	194	12	148	12	92	11
Asia	146	9	83	7	54	7
Africa & Middle East	47	3	35	3	19	2
North America	27	2	36	3	4	1
Total	810	50	543	45	335	41
Domestic Operations	806	50	661	55	487	59
Consolidated	<u>\$1,616</u>	<u>100%</u>	<u>\$1,204</u>	<u>100%</u>	<u>\$822</u>	<u>100%</u>

(In Millions)	Income before Taxes and Securities Gains (Losses)					
	1980		1979		1978	
	Amount	Percent	Amount	Percent	Amount	Percent
International Operations:						
Europe	\$ 18	15%	\$ 19	19%	\$18	26%
Latin America & Caribbean	30	24	21	21	14	19
Asia	16	13	16	16	9	13
Africa & Middle East	18	14	10	10	12	17
North America	17	14	12	12	4	5
Total	99	80	78	78	57	80
Domestic Operations	25	20	22	22	15	20
Consolidated	<u>\$124</u>	<u>100%</u>	<u>\$100</u>	<u>100%</u>	<u>\$72</u>	<u>100%</u>

(In Millions)	Income before Securities Gains (Losses)					
	1980		1979		1978	
	Amount	Percent	Amount	Percent	Amount	Percent
International Operations:						
Europe	\$10	12%	\$10	14%	\$ 9	16%
Latin America & Caribbean	14	17	11	15	7	13
Asia	10	11	8	12	5	10
Africa & Middle East	8	9	4	6	5	9
North America	8	10	5	8	2	3
Total	50	59	38	55	28	51
Domestic Operations	36	41	31	45	27	49
Consolidated	<u>\$86</u>	<u>100%</u>	<u>\$69</u>	<u>100%</u>	<u>\$55</u>	<u>100%</u>

Geographic Distribution of Selected Assets
Attributable to International Operations

It is estimated that the Corporation's international operations accounted for approximately 40% of its consolidated assets at December 31, 1980, and approximately 38% of its consolidated assets at December 31, 1979 and 1978, and 51%, 56% and 51% of its consolidated liabilities at December 31, 1980, 1979 and 1978, respectively.

The following table presents an allocation of certain of the Corporation's principal assets between international and domestic operations at December 31, 1980, 1979 and 1978, based upon the domicile of the customer. The portions of these assets attributable to international operations are distributed by major geographic area. The Corporation does not have in any one foreign country assets in excess of 10 percent of its total assets.

(In Millions)	1980			1979			1978		
	Interest Bearing Deposits With Banks*	Loans	Customers' Acceptance Liability	Interest Bearing Deposits With Banks*	Loans	Customers' Acceptance Liability	Interest Bearing Deposits With Banks*	Loans	Customers' Acceptance Liability
International Operations:									
Europe	\$1,631	\$1,144	\$ 33	\$1,726	\$ 732	\$ 54	\$1,467	\$ 580	\$ 19
Latin America & Caribbean	479	1,252	74	552	1,041	81	273	878	80
Asia	375	856	142	275	630	128	256	575	173
Africa & Middle East	90	465	61	135	301	48	83	360	29
North America	94	243	98	119	139	43	40	159	13
Total	<u>2,669</u>	<u>3,960</u>	<u>408</u>	<u>2,807</u>	<u>2,843</u>	<u>354</u>	<u>2,119</u>	<u>2,552</u>	<u>314</u>
Domestic Operations	25	4,913	151	30	4,765	110	30	4,527	85
Consolidated	<u>\$2,694</u>	<u>\$8,873</u>	<u>\$559</u>	<u>\$2,837</u>	<u>\$7,608</u>	<u>\$464</u>	<u>\$2,149</u>	<u>\$7,079</u>	<u>\$399</u>

*Interest bearing deposits with banks are distributed based upon the location of the office of the bank at which the funds have been deposited. As a result, interest bearing deposits with overseas branches of United States banks amounting to approximately \$560 million (or 21% of the international operations total) at December 31, 1980, \$752 million (or 27% of the international operations total) at December 31, 1979, and \$564 million (or 27% of the international operations total) at December 31, 1978, are included in the above table.

(continued)

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Distributions of International Loans (Based Upon Borrowers' Business Classifications)

The accompanying table presents the distribution of loans attributable to the Corporation's international operations at December 31, 1980, 1979 and 1978, based upon the borrowers' business classifications.

(In Millions)	1980	1979	1978
Loans to:			
Banks	\$1,366	\$ 980	\$1,055
Other Financial Institutions	219	84	114
Governments and Official Institutions	442	275	290
Individuals	20	13	3
Businesses	1,772	1,388	1,011
Loans Secured by Real Estate	122	87	73
Other Loans	19	16	6
Total	<u>\$3,960</u>	<u>\$2,843</u>	<u>\$2,552</u>

(Based Upon International Bank for Reconstruction and Development Classifications)

The accompanying table presents the distribution of loans attributable to the Corporation's international operations at December 31, 1980, 1979 and 1978, based upon the annual per capita income level of the country of domicile of the borrower. Classifications of countries are derived, for all years, from the most current data available from the International Bank for Reconstruction and Development.

(In Millions)	1980	1979	1978
Industrialized Countries	\$1,486	\$1,000	\$ 861
Capital Surplus Oil Exporting Countries	22	36	19
Developing Countries:			
Upper Middle Income (\$3,000-\$6,999 per capita)	465	267	220
Intermediate Middle Income (\$700-2,999 per capita)	1,623	1,223	1,121
Lower Middle Income (\$300-\$699 per capita)	338	294	308
Low Income (\$299 or less per capita)	26	23	23
Total	<u>\$3,960</u>	<u>\$2,843</u>	<u>\$2,552</u>

EXAMPLES Foreign activities (footnotes)

NATIONAL CITY CORPORATION

Business Segment and International Activities

The Corporation's only significant business segment is commercial banking.

International activities consist of import-export transactions, foreign lending, investments in foreign securities and Eurodollar deposits and placements. The Corporation considers assets, liabilities, revenues and income before security transactions and Federal income taxes as associated

with international activity based on the domicile of the customer, except that foreign branches of U.S. banks are also included.

The composition of international assets and liabilities follows:

(Dollars in Thousands)	December 31,	
	1980	1979
Assets		
Cash and demand balances due from banks	\$ 4,956	\$ 3,392
Eurodollar time deposits in banks	642,500	652,425
Short-term money market investments	36,454	52,480
Other securities	-	3,000
Loans:		
Commercial and industrial	21,156	17,476
Banks and other financial institutions	27,102	6,510
Governments and official institutions	27,026	36,086
Total Loans	75,284	60,072
Less reserve for loan losses	(843)	(1,117)
Loans Less Reserve	74,441	58,955
Customers' acceptance liability	215,940	82,307
Other assets	23,103	16,118
Total Assets	<u>\$997,394</u>	<u>\$868,677</u>
Percent of Consolidated Assets	18.22	17.5%

(Dollars in Thousands)	December 31,	
	1980	1979
Deposits and Other Liabilities		
Demand deposits	\$ 27,002	\$ 15,379
Deposits in overseas office*		
- banks	235,850	68,076
- other	199,992	110,052
Total Deposits	462,844	193,507
Acceptances outstanding	215,940	82,307
Other liabilities	6,614	2,836
Total Deposits and Other Liabilities	<u>\$685,398</u>	<u>\$278,650</u>

*Substantially all in amounts of \$100,000 or more.

The Corporation determines international revenues and cost of funds based on actual earning and funding rates for the year. Allocations for indirect expenses are based on internal estimates, certain direct costs and other pertinent factors. A condensed summary of the Corporation's international operations follows:

(In Thousands)	For the Calendar Year		
	1980	1979	1978
Revenues	\$109,544	\$73,893	\$49,418
Expenses	103,625	67,554	45,075
Income before income taxes:			
Eurodollar activities	2,425	3,546	1,819
International banking	3,494	2,793	2,524
Total	5,919	6,339	4,343
Net Income	3,196	3,423	2,258

WACHOVIA CORPORATION

Foreign Activities

The Corporation provides banking services in various parts of the world through the Bank's International Department with offices in Winston-Salem and Charlotte, North Carolina, a Grand Cayman branch, two Edge Act subsidiaries (located in New York City and Winston-Salem) and a representative office in Zurich. The services are provided to both domestic and foreign customers, correspondent banks and creditors and include commercial lending, financing of import-export trade, foreign exchange and investments.

In the financial data presented below, the Corporation has considered assets and revenues as associated with foreign banking operations (for loans and deposits placed) on the basis of the country of domicile of the customers or correspondent banks (including deposits in foreign branches of other United States banks) and the foreign location of other assets. Deposits received and other liabilities are classified on the basis of the country of domicile of the creditor (including foreign branches of other United States banks).

Assets and liabilities of the foreign activities, as defined above, at December 31 were:

	1980	1979
Assets		
Cash and due from banks	\$ 3,676,168	\$ 3,959,393
Interest bearing bank balances	474,313,563	363,047,023
Loans:		
Commercial and industrial	168,053,653	103,836,241
Banks and other financial institutions	87,163,007	57,789,733
Governments and official institutions	29,203,623	46,443,631
Loans, gross	284,420,283	208,069,605
Less unearned income	515,847	173,746
Total loans	283,904,436	207,895,859
Less reserve for loan losses	1,339,712	1,766,640
Net loans	282,564,724	206,129,219
Customers' acceptance liability	171,374,210	86,771,759
Other assets	21,867,063	15,524,019
Total assets	<u>\$953,795,728</u>	<u>\$675,431,413</u>

Liabilities

Deposits:		
Banks	\$ 75,583,001	\$123,685,169
Governments and official institutions	53,677,977	77,971,593
Other demand deposits	882,371	660,102
Other time deposits	50,849,946	44,692,149
Total deposits	180,993,295	247,009,013
Acceptances outstanding	171,374,210	86,771,759
Other liabilities	5,433,569	5,168,586
Funds of domestic operations	595,994,654	336,482,255
Total liabilities	<u>\$953,795,728</u>	<u>\$675,431,413</u>

A summary of the changes in the reserve for loan losses for the foreign activities for the two years ended December 31, 1980, is presented below:

	1980	1979
Balance at beginning of year	\$1,766,640	\$1,169,737
Provision for loan losses	719,912	596,903
Loans charged off	(1,146,840)	-
Balance at end of year	<u>\$1,339,712</u>	<u>\$1,766,640</u>

Credit is extended based upon the Bank's evaluation of the borrower's financial condition and types of exposure inherent in foreign activities. The reserve for loan losses is an allocated amount based on the relationship of average foreign loans to average total loans.

Due to the integrated nature of the Corporation's international operations involving both foreign and domestic activities, it is not possible to segregate with precision the operating results relating solely to foreign operations. Accordingly, certain estimates and assumptions have been used in the compilation of the following expenses relating to foreign activities. These estimates and assumptions include an allocation of charges for interest on foreign deposits and advances from domestic operations, the provision for loan losses and operating costs of the various foreign activities. Rates used to determine the internal allocation for funds advanced from domestic operations were based on the actual external costs of selected interest bearing sources of funds. Other expense includes an allocation for administrative and other overhead expenses. Income taxes have been provided at statutory rates. A summary of the operating results of foreign operations for the two years ended December 31, 1980, follows:

	1980	1979
Interest income	\$32,028,017	\$56,342,007
Interest expense	78,398,584	53,015,354
Net interest income	3,629,433	3,326,653
Provision for loan losses	719,912	596,903
Net interest income after loan loss provision	2,909,521	2,729,750
Other income	950,403	978,262
	3,859,924	3,708,012
Other expense	2,364,721	1,274,336
Income before income taxes	1,495,203	2,433,676
Applicable income taxes	736,238	1,198,342
Net income	<u>\$ 758,965</u>	<u>\$ 1,235,334</u>

The Corporation's foreign activities do not include any individual country or geographic area which is significant in relation to consolidated activities.

Comparative operating results are not available for the year ended December 31, 1978. Prior to 1979 the records of the foreign operations were not segregated to reflect the financial data presented above under the definitions as previously described. It was not considered practicable to provide such comparative information; however, management believes the information provided for 1979 would not have been significantly different for 1978.

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MARINE MIDLAND BANKS, INC.

International Operations

International banking activities are conducted by the Bank through overseas branches and subsidiaries and through the lending, foreign exchange and other service activities provided by its international banking, corporate banking and money management divisions.

Under reporting requirements of the Securities and Exchange Commission, international activities are defined as those conducted with non-U.S. domiciled customers.

The following tables display international assets consisting of loans, deposits placed with banks and other revenue producing assets, primarily with customers domiciled outside the United States, and liabilities by type, an analysis of the reserve for loan losses attributable to international operations and a geographic distribution of international earnings.

International Assets by Geographic Distribution and Domestic Assets

	December 31,	
	1980	1979
	(in thousands)	
Identifiable assets		
International:		
Europe	\$ 2,939,641	\$ 2,480,419
Asia/Pacific	1,109,458	1,165,666
Other Western Hemisphere	2,241,273	2,100,280
Middle East/Africa	411,910	316,789
United States	66,207	123,918
Less--reserve for loan losses	(23,000)	(27,000)
Total international	6,745,489	6,160,072
Domestic	10,734,076	9,568,084
Total domestic/international	<u>\$17,479,565</u>	<u>\$15,728,156</u>

In the preceding table international loans are distributed geographically primarily on the basis of the location of the head office or residence of the borrowers or, in the case of certain guaranteed loans, the guarantors. Interest bearing deposits with banks are grouped by the location of the office of the bank accepting the deposit. Investments and acceptances are distributed on the basis of the location of the issuers or borrowers.

Total International Assets by Principal Asset Type

	December 31,	
	1980	1979
	(in thousands)	
Deposits in foreign banks:		
Interest bearing	\$2,892,825	\$2,610,495
Non-interest bearing	48,509	34,977
Trading securities	102,182	2,469
Investments in foreign issues	51,837	50,585
Loans to foreign customers:		
Bank and bank guaranteed	1,215,080	1,102,000
Other financial institutions	258,385	201,654
Government and official institutions	593,779	661,906
Commercial and industrial:		
Shipping	335,324	319,265
Other commercial and industrial	767,309	489,918
Real estate	35,328	51,772
Other	12,586	48,527
Total loans	3,217,791	2,875,042
Less--reserve for loan losses	(23,000)	(27,000)
Total loans, net	3,194,791	2,848,042
Acceptances	299,343	467,203
Other assets	156,002	146,301
Total international assets	<u>\$6,745,489</u>	<u>\$6,160,072</u>

EXAMPLES Method of accounting for foreign exchange gains and losses

AMERICAN NATIONAL BANK AND TRUST COMPANY OF CHICAGO (summary of accounting policies)

Foreign Currency Translation

Assets and liabilities of the Bank's foreign branches are translated at rates prevailing as of the statement dates. Income and expenses for each month have been translated at the rates prevailing at month-end. The resulting net gain or loss, including foreign exchange contracts is recognized currently in the results of operations and amounted to a gain of \$1,107,000 in 1980 and \$976,000 in 1979.

BANK OF NEW YORK COMPANY, INC. (footnotes)

Foreign Exchange

Foreign exchange activities arise from servicing customers' needs for foreign exchange and from the Bank engaging in spot and forward transactions to utilize and hedge foreign currency positions. Net foreign currency exchange adjustments, resulting from foreign exchange transactions and gains on translation of foreign balances, were \$2,210,000, \$1,811,000 and \$27,000 in 1980, 1979 and 1978 respectively, and were credited to Other Operating Income.

NORTHERN TRUST CORPORATION
(summary of accounting policies)

Foreign Exchange

Foreign exchange gains and losses resulting from trading activities, translation of foreign currency asset and liability accounts, and hedge contracts are included in other operating income. Net gains were \$4,493,000 in 1980, \$2,517,000 in 1979, and \$1,327,000 in 1978.

IRVING BANK CORPORATION
(footnotes)

Foreign Exchange Transactions

Net unrealized gains (losses) resulting from the translation of investments denominated in foreign currencies were \$(2,236,000) in 1980, \$1,350,000 in 1979 and \$2,950,000 in 1978. Net foreign exchange trading income, which includes the results of monthly revaluations of foreign exchange trading positions, amounted to \$16,947,000, \$9,957,000 and \$1,855,000 in 1980, 1979 and 1978, respectively.

EXAMPLES Acquisitions (footnotes)

ORBANCO FINANCIAL SERVICES CORPORATION

Business Acquisitions

During 1980, in transactions accounted for as purchases, Orbanco acquired two banking organizations. In April, 1980, Orbanco purchased Lincoln Bank (Lincoln), and in July, 1980, purchased Southern Oregon State Bank (Southern) in exchange for cash payments and notes totaling approximately \$11,300,000 and \$12,200,000, respectively. Both banks are headquartered in the State of Oregon.

The total purchase cost of Lincoln and Southern was approximately \$23,631,000, which exceeded the estimated fair value of the net assets acquired by approximately \$17,376,000. The excess of purchase cost over the estimated fair value of net assets acquired was recorded as goodwill and is being amortized on the straight-line method over forty years. The purchase transactions are summarized as follows (in thousands of dollars):

Cash	\$ 9,236
Investment securities	45,463
Loans, net of allowance for losses and unearned interest income	70,834
Premises and equipment, net	5,904
Other assets	6,563
Deposits and other liabilities assumed	(131,745)
Excess of cost over fair value of net assets acquired	17,376
Purchase cost	<u>\$ 23,631</u>

The following unaudited information represents the consolidated results of operations of Orbanco on a pro forma basis (including the effects of purchase accounting adjustments) as if Lincoln and Southern had been acquired at the beginning of the years ended December 31, 1980 and 1979 (in thousands of dollars, except per share amounts).

	1980	1979
Interest and other income	\$173,550	\$149,274
Net income	\$13,241	\$11,212
Net income per share	\$4.53	\$4.07

In July, 1978, in a transaction accounted for as a purchase, Orbanco acquired Union Investment Company (Union) in exchange for 453,267 shares of its common stock, 20,000 shares of its 9% preferred stock, 4,672 shares of its 5-1/2% preferred stock, and a cash payment of \$1,000,000, which was contingent on the realization of certain assets. During 1980 the cash payment of \$1,000,000 was made to the former shareholders of Union.

The purchase cost, based on the market value of Orbanco stock issued at the acquisition date and the cash payment, was approximately \$10,617,000. The estimated fair value of the net assets acquired, after reducing the carrying value of Union's premises and equipment and certain other assets to zero, exceeded the purchase cost by approximately \$1,453,000. This excess, which is recorded as a deferred credit, is being amortized on the straight-line method over eight years. The purchase transaction is summarized as follows (in thousands of dollars):

Receivables, net of allowance for losses and unearned interest income	\$108,795
Other assets	11,010
Obligations assumed	(107,735)
Excess of fair value of net assets acquired over cost	(1,453)
Purchase cost	<u>\$ 10,617</u>

The following unaudited information represents the consolidated results of operations of Orbanco on a pro forma basis (including the effects of purchase accounting adjustments) as if Union had been acquired at the beginning of the year ended December 31, 1978 (in thousands of dollars, except per share amounts).

	1978
Interest and other income	\$105,546
Net income	\$8,358
Net income per share	\$3.17

FLAGSHIP BANKS INC.

Acquisition of Florida Bankshares, Inc.

On December 2, 1980, the Company acquired for cash all of the outstanding stock of Florida Bankshares, Inc. which owned all of the outstanding stock of the First National Bank of Hollywood, the First National Bank of Moore Haven and the First National Bank of

(continued)

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West Delray, and owned approximately 30% of the outstanding stock of the First National Bank of Sebring. These commercial banks will continue to operate as subsidiaries, or in the case of Sebring as an affiliate, of the Company. Consolidated net assets at the date of acquisition were comprised of: cash and due from banks--\$21,405,000, investment securities--\$76,955,000, loans, net--\$83,661,000, deposits--\$163,660,000, and all other, net--\$371,000. The purchase price was approximately \$27,600,000 including capitalized expenses. The funds for the purchase price were provided from the sale of pre-

ferred stock and bank borrowings of \$8,400,000. The transaction was accounted for as a purchase. The excess of cost over the equity in net assets acquired amounted to approximately \$8,865,000 and is being amortized over a 40 year period.

The consolidated financial statements include the results of operations of Florida Bankshares, Inc. and subsidiaries for the month of December, 1980. The pro forma unaudited results of operations assuming that this acquisition had been consummated on January 1, 1978 would have been as follows:

	Year Ended December 31,		
	1980	1979	1978
	(In Thousands)		
	Except Per Share Amounts)		
Net interest income	\$102,359	\$91,495	\$77,688
Income before securities transactions and extraordinary item	24,347	20,074	13,109
Income before extraordinary item	23,413	19,289	13,074
Net income	23,576	24,693	21,464
Earnings per common share:			
Primary:			
Income before securities transactions and extraordinary item	\$ 3.17	\$ 2.59	\$ 1.60
Income before extraordinary item	3.04	2.48	1.60
Net income	3.06	3.25	2.80
Fully diluted:			
Income before securities transactions and extraordinary item	\$ 2.98	\$ 2.48	\$ 1.60
Income before extraordinary item	2.86	2.38	1.60
Net income	2.88	3.05	2.67

HERITAGE BANK CORPORATION

1980--Pooling of Interests

On November 17, 1980, the Company acquired all the outstanding stock of The City National Bank and Trust Company of Salem (CNB&T), Salem, New Jersey for 364,000 shares of its common stock. This transaction is accounted for as a pooling of interests and, accordingly, the financial statements for the years ended December 31, 1980; 1979 and 1978 (restated) include the accounts of CNB&T.

Condensed results of operations of the Company and CNB&T for 1979 and 1978 as previously reported (Company) and currently reported (combined) follows:

	(\$000 omitted)		
	Company	CNB&T	Combined
For nine months ended September 30, 1980 (unaudited)			
Net interest income after provision for loan losses	\$38,825	\$1,199	\$40,024
Net operating expenses	27,867	564	28,431
Income before securities transactions	9,869	550	10,419
Net income	\$ 9,619	\$ 555	\$10,174
1979			
Net interest income after provision for loan losses	\$48,724	\$1,785	\$50,509
Net operating expenses	31,947	809	32,756
Income before securities transactions	13,083	845	13,928
Net income	\$13,090	\$ 848	\$13,938
1978			
Net interest income after provision for loan losses	\$43,093	\$1,637	\$44,730
Net operating expenses	30,087	752	30,839
Income before securities transactions	9,914	762	10,676
Net income	\$ 9,925	\$ 816	\$10,741

HUNTINGTON BANCSHARES INCORPORATED

Acquisitions

The Bank acquired two banks during 1980. The Farmers and Merchants Bank of Milford Center was acquired on March 29, 1980 and The First National Bank of Burton was acquired on December 5, 1980. Both acquisitions were accounted for by the purchase method; therefore, the income statement of the Corporation includes only the results of operations for each of the acquired banks subsequent to the date of acquisition. A schedule of pro forma results of operations as though the acquired banks had been combined at the beginning of the periods has been omitted because there was no material difference from the reported results.

REPUBLIC OF TEXAS CORPORATION

Acquisitions

RPT consummated the acquisition of eleven banks and opened a de novo bank during the three years ended December 31, 1980; such acquisitions individually had no material effect on the accompanying financial statements.

Date Acquired	Bank and Consideration
1978	
May	Ridglea Bank, Fort Worth (cash purchase of \$10,500,000)
August	Bexar County National Bank, San Antonio (cash purchase of \$13,905,000)
August	Greenville Ave. Bank & Trust, Dallas (cash purchase of \$6,617,000)
October	First National Bank in Mineral Wells (cash purchase of \$4,151,000)
1979	
January	Texas Bank, Austin (cash purchase of \$15,000,000)
January	City National Bank, Fort Worth (cash purchase of \$9,900,000)
May	First National Bank, Plano (cash purchase of \$2,987,000)
October	Bank of A&M, College Station (issuance of 184,243 shares of common stock in a pooling of interests)
1980	
February	Southwest National Bank of San Antonio (cash purchase of \$4,485,000)
March	Republic Bank of Irving (a de novo bank)
September	Bank of Austin (issuance of 205,200 shares of common stock in a pooling of interests)
September	Oak Cliff Bank and Trust (purchase transaction through issuance of 624,987 shares of convertible preferred stock and \$966,000 cash)

On January 1, 1981 RPT consummated the acquisition of Fort San Houston BankShares, Incorporated, a bank holding company which owns three banks, in a purchase transaction through the issuance of 1,159,200 shares of convertible preferred stock. Their total assets at December 31, 1980 were \$316 million and income before securities transactions for 1980 was \$3 million.

Fair market value assigned to the convertible preferred stock issued in the above acquisitions was \$21.25 per share.

RPT has pending the acquisition of four banks through the issuance of 2,212,094 shares of common stock and \$2,600,000. RPT's pending acquisition of one of these banks, The Citizens National Bank of Waco, through the issuance of 1,000,000 shares of common stock has recently been denied by the Federal Reserve Board. RPT is presently contesting this denial. The remaining acquisitions are in various stages of consummation and are subject to the approval of respective regulatory agencies and the banks' stockholders. These pending acquisitions individually will not have a material effect on RPT's financial statements.

TEXAS COMMERCE BANCSHARES, INC.

Mergers

First National Bank of McAllen was acquired in April 1978 for 249,974 shares of Common Stock in a pooling of interests transaction.

All required regulatory and stockholder approvals have been obtained to acquire BancSouthwest Corporation and its principal subsidiary, Bank of the Southwest in Amarillo, and it is anticipated that the merger will be consummated in January 1981 by the issuance of 198,582 shares of Common Stock. The acquisition will be accounted for as a pooling of interests transaction. The pro forma effect of this acquisition on the financial results of Texas Commerce is not material. At December 31, 1980, Bank of the Southwest had total assets of \$70 million.

Separate agreements or agreements in principle have been entered into which provide for the following banks to become wholly-owned subsidiaries of Texas Commerce:

	Total Assets At December 31, 1980	Approximate Number of Shares of Common Stock to be Issued
First National Bank of Stafford	\$92 million	312,000*
Friendswood Bank	30 million	152,000
Gulfway National Bank, Corpus Christi	34 million	124,000
Hillcrest State Bank, Dallas	65 million	322,000
Mercantile National Bank, Corpus Christi	54 million	240,000
The Stone Fort National Bank, Nacogdoches	103 million	384,000

*Represents the number of shares to be issued for 76.7% of the bank's capital stock. The remaining 23.3% interest is owned by a subsidiary of Texas Commerce.

Each of the above proposed acquisitions is subject to regulatory approval and the acquisitions of First National Bank of Stafford, Friendswood Bank, Hillcrest State Bank and The Stone Fort National Bank are also subject to stockholder approval.

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FIRST CITY BANCORPORATION OF TEXAS, INC.

Acquisitions

During 1978, 1979 and 1980, First City consummated the following acquisitions:

Date	Bank of Company	Shares of Common Stock Issued
December 4, 1978	Lewisville State Bank	80,009
March 1, 1979	The Lufkin National Bank	209,133
June 1, 1979	United National Bank, Dallas	309,543
December 3, 1979	First Security National Corporation, Beaumont	1,160,574
June 6, 1980	Gateway National Bank, Beaumont	105,000
October 1, 1980	The First National Bank of Madisonville	87,500

The acquisitions of Lewisville State Bank, United National Bank and Gateway National Bank were accounted for as purchases. Under the purchase method of accounting, the earnings of these banks are included in the consolidated financial statements only from the dates of the acquisitions. Results of operations of these purchased banks prior to their respective acquisition dates were not significant in relation to the consolidated income of First City. The amounts assigned to the shares issued for these banks were \$2,863,000 for Lewisville State Bank, \$10,137,000 for United National Bank and \$4,463,000 for Gateway National Bank; these amounts represent the market values of such shares at the respective dates the acquisitions were consummated.

The acquisitions of The Lufkin National Bank, First Security National Corporation and The First National Bank of Madisonville were accounted for as poolings of interests, and, accordingly, the prior period consolidated financial statements have been restated to include the accounts of these companies. Net interest income, income before securities transactions and net income of the two companies acquired in 1979 for the periods of that year prior to the effective dates of their acquisition were \$17,119,000, \$4,700,000 and \$4,702,000, respectively. For the period in 1980 prior to the acquisition consummated in that year, those amounts were \$1,074,000, \$353,000 and \$353,000, respectively. The First National Bank of Madisonville had net interest income of \$1,383,000 in 1979 and \$1,212,000 in 1978 and net income of \$429,000 in 1979 and \$387,000 in 1978.

GULFSTREAM BANKS, INC.

Spin-Off and Merger Transactions

On December 12, 1979, the shareholders of First Bancshares of Florida, Inc. (First Bancshares), approved an Agreement and Plan of Merger and Reorganization among First Bancshares, Gulfstream Banks, Inc., (Gulfstream), Southeast Banking Corporation (Southeast) and Southeast Merger Company (SMC) involving the merger of First Bancshares with SMC, a wholly-owned subsidiary of Southeast, and the related spin-off of the shares of common stock of Gulfstream, at the time a wholly-owned subsidiary of First Bancshares, to the shareholders of First Bancshares. These transactions, completed December 31, 1979, involved, in effect, the acquisition by Southeast of the six northernmost banking subsidiaries of First Bancshares and certain related assets and liabilities, in exchange for which shareholders of First Bancshares received 508,995 shares of Southeast \$4.06 convertible preferred stock. In the transactions, Gulfstream succeeded to the then present business of First Bancshares, excluding the six northernmost banking subsidiaries of First Bancshares.

The six banking subsidiaries acquired by Southeast in the merger with First Bancshares were First National Bank and Trust Company of Riviera Beach, Citizens Bank of Palm Beach County, Jensen Beach Bank, First National Bank of Fort Pierce, First National Bank of Palm Beach Gardens and Vero Beach National Bank.

The three banking and three non-banking subsidiaries of First Bancshares transferred to Gulfstream in the spin-off transaction were First Bank and Trust Company of Boca Raton, N.A., American National Bank and Trust Company of Fort Lauderdale, Boynton Beach National Bank, Beacon Leasing Corporation, Fleming Mortgage Company and Fleming Insurance Agency, Inc. In addition, Gulfstream acquired all the assets and assumed all the liabilities of First Bancshares of Florida, Inc. (Parent Company) excluding the stock of its six northernmost subsidiaries and certain related assets and liabilities retained by First Bancshares pursuant to the Spin-Off Agreement.

EXAMPLES Goodwill charged to undivided profits (footnotes)

CITIZENS AND SOUTHERN GEORGIA CORPORATION

Business Combinations

In accordance with regulations of the Comptroller of the Currency applicable to national banks, goodwill arising from purchase transactions prior to 1980 was charged immediately against surplus or retained earnings. This accounting was at variance with generally accepted accounting principles, which require that such goodwill be accounted for as an intangible asset, but the effect on the financial statements is not material. For financial reporting purposes, amortization of such goodwill, computed by the straight-line method over a ten-year period is charged to income and credited to surplus or retained earnings.

Beginning in 1980, goodwill arising from purchase transactions was capitalized and is accounted for as an intangible asset. Amortization of such goodwill, computed by the straight-line method over a forty-year period, is charged to income.

NORTHEASTERN BANK OF PENNSYLVANIA

Acquisition of the First National Bank of Mocanaqua

On December 18, 1980, the Bank acquired the assets and assumed the liabilities of the First National Bank of Mocanaqua in exchange for a cash payment of \$120,000. The transaction was accounted for as a purchase.

Undivided profits was reduced \$1,541,000, representing the difference between the historical cost basis of the assets acquired and the approximate fair market value of such assets at the date of acquisition. This accounting treatment, as required by the Federal Deposit Insurance Corporation, is at variance with generally accepted accounting principles which require that such amounts be accounted for as an intangible asset and be amortized over the expected period to be benefited. This variance does not have a material effect upon the financial statements taken as a whole.

The results of operations of the acquired bank beginning December 18, 1980 are included in the accompanying financial statements. The results of operations of the acquired bank prior to that date were not significant.

NATIONAL BANK OF NORTH AMERICA

Acquisitions

On March 10, 1980 National Bank of North America purchased \$62.9 million of assets and assumed \$172.5 million of liabilities of sixteen Bankers Trust Company Branch offices. Bankers Trust Company paid National Bank of North America the difference between assets purchased and liabilities assumed less a premium based on average daily deposits for

the two-month period ended March 31, 1980. This premium together with additional external costs of the acquisition totalled \$11,272,000 and was charged directly against equity capital as directed by the Comptroller of the Currency. Had this amount been capitalized in accordance with generally accepted accounting principles and subsequently amortized over the estimated benefit period, the effects on the financial statements would not have been material.

CALIFORNIA FIRST BANK

Accounting Treatment for Goodwill

The accounting for goodwill has been and continues to be a matter of controversy among accounting rule-making bodies and banking authorities. In 1975, the Bank acquired the assets and assumed the liabilities of a bank holding company and its bank subsidiary. The acquisition was accounted for as a purchase. Under generally accepted accounting principles, the excess of purchase price paid over the value of net assets acquired (goodwill) should have been recorded as an asset and amortized to income over a period of not more than 40 years. However, in conformity with the accounting required by bank regulatory agencies, goodwill of \$37,392,880 was charged directly to surplus. This amount was subsequently increased by \$926,200 in 1976 at the request of the Bank's regulatory authorities and decreased by \$1,300,000 in 1979 to record certain assets, the realization of which was uncertain at the time of purchase. Had goodwill been recorded as an asset and amortized, using a 40 year life, 1980, 1979 and 1978 net income would have been reduced by \$922,460, \$922,460 and \$958,571, or by \$.16, \$.16 and \$.17 per share, respectively. Shareholders' equity would have been reported as \$175,924,000, \$164,754,000 and \$151,315,000 as of December 31, 1980, 1979 and 1978, respectively.

SUMITOMO BANK OF CALIFORNIA

Accounting Treatment for Goodwill

The Bank acquired nineteen branches of The Bank of California in 1977, and accounted for this acquisition as a purchase. Under generally accepted accounting principles, the excess of the purchase price paid over the value of net assets acquired (goodwill) should have been recorded as an asset and amortized to income over a period of not more than 40 years. In this instance, goodwill of \$19,900,000 was charged directly to surplus in 1977. This accounting treatment is in conformity with the accounting required by FDIC. The accounting for goodwill continues to be a matter of controversy within the accounting profession and the bank regulatory agencies.

Had goodwill been recorded as an asset and amortized using a 40-year life, net income for 1980, 1979 and 1978 would have been reduced by \$498,000, or \$.16 per share in each year. Shareholders' equity would also have been increased by \$18,366,000, \$18,864,000, and \$19,361,000, and reported as \$94,562,000, \$87,775,000, and \$81,685,000 as of December 31, 1980, 1979 and 1978, respectively.

EXAMPLES Amortization of goodwill (summary of accounting policies)

FINANCIAL GENERAL BANKSHARES, INC.

Cost in Excess of Equity in Net Assets of Subsidiaries

The unamortized cost of the Company's investment over its equity in the net assets of consolidated subsidiaries (\$798,699) is included in "Other Assets" in the consolidated balance sheet and is being amortized over a 40-year period.

DETROITBANK CORPORATION

Certain subsidiaries of the corporation were acquired in purchase transactions. The excess of cost over net assets acquired is being amortized over 30 years.

PROVIDENT NATIONAL CORPORATION

The consolidated financial statements of the Corporation, the Bank and PNIC include the accounts of the respective parent and all of its consolidated subsidiaries after the elimination of all significant intercompany transactions. The Parent Company accounts for its investments in consolidated subsidiaries (all of which are wholly-owned) under the equity method of accounting. The cost in excess of acquired net assets of subsidiaries is included in other assets and is being amortized on a straight-line basis over periods ranging from ten to twenty years.

The Corporation uses the accrual basis of accounting, except that the Bank's trust income is substantially recorded on the cash basis. Recording trust income on the cash basis does not materially affect net income.

AMERITRUST CORPORATION

Intangible Assets: The excess of cost over net assets of banks acquired is amortized by the straight-line method over 40 years.

NATIONAL DETROIT CORPORATION

The Corporation's (parent only) balance sheet reflects its investment in its wholly owned subsidiaries at the equity in underlying net assets plus the excess of purchase price over the book value of net assets at date of acquisition (the excess is amortized over a 25-year period.)

EXAMPLES Amortization of goodwill (footnotes)

LITCO BANCORPORATION OF NEW YORK, INC.

Excess of Cost Over Fair Value of Net Assets of Acquired Subsidiary

An analysis of the changes in Excess of Cost Over Fair Value of Net Assets Acquired for 1980, 1979 and 1978 follows:

	1980	1979	1978
	(in thousands)		
Gross Book Value:			
Balance, January 1	\$7,696	\$7,819	\$7,984
Deduct--Realized Tax Benefit of Pre-Acquisition loss carry-forward		(123)	(165)
Balance, December 31	7,696	7,696	7,819
Accumulated Amortization:			
Balance, January 1	622	427	226
Additions-Amortization charged to operations	192	195	201
Balance, December 31	814	622	427
Net Book Value, December 31	<u>\$6,882</u>	<u>\$7,074</u>	<u>\$7,392</u>

FIDELCOR, INC.

Other Assets

Other assets include unamortized goodwill in the amounts of \$6,793,000 and \$7,201,000 for 1980 and 1979 respectively. Goodwill is being amortized over various periods ranging from 5 to 40 years.

Investment in capital stock of subsidiaries in the financial statements of Fidelcor, Inc. (Parent Corporation) includes unamortized goodwill in the amounts of \$5,343,000 and \$5,612,000 for 1980 and 1979 respectively.

EUROPEAN AMERICAN BANCORP

Excess of Cost Over Fair Value of Net Assets Acquired

Under a Purchase and Assumption Agreement dated October 8, 1974, between EABTC and the Federal Deposit Insurance Corporation as receiver of the Franklin National Bank, EABTC assumed the deposits and certain other related liabilities of Franklin National Bank. In consideration of such assumption, EABTC acquired certain assets of the Franklin National Bank with an aggregate fair value equal to the total amount of liabilities assumed less \$125 million.

Bank regulatory authorities have required that this excess (\$125 million) of EABTC's cost over the fair value of net assets acquired be charged off at any time by any combination of charges prior to December 31, 1989. Generally accepted accounting principles require that such excess be capitalized and amortized systematically over its estimated useful life but in no event to exceed 40 years. Management believes that the estimated useful life of such excess arising from this transaction is indeterminate and exceeds 40 years. Currently, EABTC has adopted an accounting policy of capitalizing such excess and amortizing it by annual charges to earnings representing 2-1/2% of the excess capitalized. As required by generally accepted accounting principles, such accounting policy will be periodically reviewed to determine its continuing propriety. Accumulated amortization at December 31, 1980, 1979 and 1978 amounted to \$19,092,000, \$16,027,000 and \$12,961,000 respectively.

EXAMPLES Commitments and contingencies (footnotes)

HOWARD BANK

Commitments

In the ordinary course of its business, the Bank makes commitments for possible future extensions of credit that are not reflected in the financial statements. Among these commitments at December 31, 1980, the Bank is obligated on approximately \$1,085,000 of standby letters of credit. The Bank does not anticipate losses in connection with these commitments.

UBAF ARAB AMERICAN BANK

In the normal course of business, there are outstanding various commitments and contingent liabilities which are not reflected in the accompanying statement of condition. At December 31, 1980 these items consisted of:

Loan commitments	\$71,141,505
Commercial letters of credit (including standby letters of credit of \$8,274,605)	78,746,998
Foreign exchange future contracts	
Purchases	68,992,897
Sales	79,152,703
Federal Reserve Bank of New York stock--subject to call	1,500,750

No material losses are anticipated as a result of these transactions.

ZIONS UTAH BANCORPORATION

Commitments and Contingent Liabilities

At December 31, 1980, Zions is obligated under a 25-year lease commitment on a building which it constructed, sold and then leased back. Zions occupies

approximately 11% of the building and has substantially subleased all of the remaining 89% of the building. The annual rental required by the lease is \$742,000 plus 10% of net rental income received by Zions in excess of \$742,000.

At December 31, 1980 Zions has the following additional commitments or contingent liabilities: (1) a contingent obligation for an annual rental of \$24,000 plus an additional 12% of all rents received from tenants in the property under a long-term land lease expiring in the year 2014 on property which has been sold under contract, (2) contingent liabilities involving various legal matters resulting from transactions in the conduct of its operations. In the opinion of management, such legal matters will result in no material liability to Zions, and (3) commitments for leasing premises and equipment by the companies under leases expiring from 1981 to 2040.

Future aggregate minimum rental payments under existing non-cancellable real property leases are as follows: 1981--\$824,000; 1982--\$781,000; 1983--\$766,000; 1984--\$758,000; 1985--\$729,000; all remaining years--\$19,890,000. Future aggregate minimum rental payments have been reduced by non-cancellable subleases as follows: 1981-1985--\$508,000 each year; all remaining years--\$5,585,000. Aggregate rental expense amounted to \$2,347,000, \$2,255,000 and \$1,656,000, after reduction for subleases of \$508,000 each year for the years ended December 31, 1980, 1979 and 1978, respectively.

Three parcels of real property leased by Zions under agreements entered into prior to December 31, 1976, are reflected as operating leases. Under current accounting promulgations, these leases would be considered as capital leases. The following summarizes the information on these leases if the provisions of such promulgation had been applied retroactively: (In Thousands)

	1980	1979	1978
Asset amount that would be included in the balance sheet net of depreciation	\$4,756	\$5,537	\$6,318
Liability amount that would be included in the balance sheet	\$8,278	\$8,438	\$8,584

The effect on net income if leases had been capitalized is not material. By 1981, the Company will be required to capitalize these leases. Earlier capitalization is not required because of restrictions in the loan agreement on the \$24,000,000 long-term senior notes payable.

MERCANTILE BANKSHARES CORPORATION

Potential Claims and Litigation

Mercantile-Safe Deposit and Trust Company ("Merc-Safe"), an affiliate of Mercshares, is involved in certain legal matters. As is the case with other financial institutions, the Office of Federal Contracts Compliance Programs ("OFCCP") is conducting an audit of employment and compensation practices of Merc-Safe. Merc-Safe believes it has supplied the requested data except for statistics for periods prior to 1976 (as to which periods the Treasury Department, then exercising powers over banks now assumed by OFCCP, had previously found Merc-Safe to be in compliance). There may be controversy with OFCCP as to the furnishing of such documents and other matters related to the audit.

Merc-Safe has been named as one of numerous defendants in a suit filed in the United States District Court for the District of Columbia by various purchasers of limited partnership interests in a coal mining venture. Compensatory damages alleged could be in the range of \$3,000,000 or more, and punitive damages of \$1,000,000 are also claimed. Certain of the plaintiffs allege that Merc-Safe (which made loans to plaintiffs who purchased limited partnership interests) participated in or aided and abetted fraudulent practices in connection with sales of the interests. Merc-Safe plans to defend the suit vigorously. The suit is in a very early stage, but based on information now available to counsel for Merc-Safe, such counsel have advised Merc-Safe that the suit is not likely to result in a material liability.

FIRST CHICAGO CORPORATION

Contingencies

The Corporation and the Bank have been named as defendants in one class action arising out of normal banking activities, and the Bank and certain Bank subsidiaries have been named as defendants in seven other class actions arising out of normal banking activities. The Corporation and certain of its bank and nonbank subsidiaries are also defendants in other litigation, and the Corporation has received certain tax deficiency assessments. In the opinion of management and its General Counsel, the ultimate resolution of these matters will not have a material effect on the applicable financial statements.

Standby letters of credit amounting to \$1,418,725,000 and \$932,606,000 were outstanding at December 31, 1980 and December 31, 1979, respectively. In the normal course of business there are outstanding various other commitments and contingent liabilities, such as commitments to extend credit, foreign exchange forward contracts, guarantees, etc., which are not reflected in the accompanying financial statements. Management does not anticipate any material loss as a result of these transactions.

LINCOLN FIRST BANKS INC.

Legal Matters

In May 1978, a lawsuit was commenced against 31 separately named defendants including Lincoln First Bank of Rochester (now a division of Lincoln First Bank, N.A.) alleging that Sun Oil Company, several investment banking concerns, certain principal holders of Becton Dickinson common stock, and the New York Stock Exchange conspired to violate Federal anti-trust and securities laws in connection with the purchase of Becton Dickinson shares from numerous individual and institutional shareholders including Lincoln First. This case continues to be in the discovery stage and legal counsel for the Company has advised that it is premature to predict the outcome. Based upon information available, it is the opinion of management that this proceeding will not have a material impact on the financial position of the Company.

The Company is also involved in other litigation and investigations of a routine nature arising in the ordinary course of business.

If the final resolution of any of these cases were to result in an assessment against the Company, such amount would be charged against earnings in the year of final resolution in accordance with Financial Accounting Standards Board Statement No. 16, "Prior Period Adjustments."

FARMERS BANK OF THE STATE OF DELAWARE

Contingent Liabilities

A limited partnership, which is the equitable owner of the Farmers Bank Building in Wilmington, Delaware, and its corporate general partner have claims against the Bank in the Federal District Court and the Delaware Court of Chancery. The complaints are based upon events and circumstances resulting from the relationship of the parties with respect to the Farmers Bank Building and other matters. The litigation in the Delaware Court of Chancery was filed in 1975 and includes claims for general and special damages, punitive damages of \$5,000,000 and certain other relief in connection with alleged improper acts by the Bank. In the Federal District Court action which was filed in 1976, the plaintiffs seek damages of \$165,000 as well as treble damages based upon allegations that the Bank violated antitrust laws. In October 1980, the Court dismissed these antitrust claims. However, the time for appeal of this action will not begin to run until final resolution of the issues involving the Delaware Court of Chancery litigation.

During 1979, the FDIC filed a lawsuit against a former borrower of the Bank to collect on loans which the FDIC purchased from the Bank under the Assistance Agreement. As a result, the former borrower filed a third-party complaint against the Bank alleging that in 1975 and 1976 former officers of the Bank breached an agreement to advance funds on a line of credit, thereby causing substantial financial damage to the former borrower.

The Bank has filed a lawsuit seeking a judgment against a borrower in the amount of \$253,000. The borrower has asserted a counterclaim seeking punitive damages of \$1 million and other damages.

There are other legal proceedings and claims against the Bank and its subsidiaries. The aggregate amount of these matters is material in relationship to the stockholders' equity of the Bank. However, there is no individual claim which is expected to result in a material liability to the Bank.

With respect to the above contingent liabilities, it is not possible at this time to estimate the loss, if any, that the Bank may incur and, accordingly, no material provision for loss has been made in the consolidated financial statements.

NORTHWESTERN FINANCIAL CORPORATION

Income Tax Assessments and Examinations

As previously reported, the Internal Revenue Service has completed examinations of the Company's and various subsidiaries' Federal income tax returns for all years prior to 1971 and is engaged in an audit of the consolidated Federal income tax returns for the years 1971 through 1977. To date, no report for the years 1971 through 1977 has been received. In December 1979, a tentative agreement in principle was reached with the United States Department of Justice for the settlement of all tax matters for years prior to 1971. Such proposed settlement is subject to further review and approval in the Department of Justice and approval of the National Office of the Internal Revenue Service, the Congressional Joint Committee on Taxation and the Office of the District Director of the Internal Revenue Service in Greensboro, North Carolina. At December 31, 1980, other assets in the accompanying consolidated balance sheet includes \$7,536,000 representing refundable taxes, penalties and interest arising from such tentative settlement. During 1980 and 1979, the Company received administrative refunds of taxes and interest amounting to approximately \$2,942,000.

As a result of the tentative agreement described in the previous paragraph, the provision for income taxes in the accompanying consolidated statement of income for 1979 includes a charge of \$1,000,000 (\$.19 per share of common stock). Such additional provision includes taxes payable, refunds due, interest to be received on the amounts to be refunded through December 31, 1979, provision for the flow-through issues for periods after 1970 and provision for other presently foreseeable tax issues in the 1971-1974 period.

In the opinion of management, adequate provision has been made in the accompanying financial statements for any presently foreseeable tax issues arising from periods under examination.

FIRST VALLEY CORPORATION

Contingencies

On March 14, 1978, the Bank entered into a consent agreement with the Federal Deposit Insurance Corporation (FDIC) which required that the Bank take a number of specific actions to improve its financial condition, including taking all action reasonably within its power to sell \$5,000,000 of equity securities by December 31, 1978. All of those actions have either been undertaken in accordance with the terms of the consent agreement or are no longer applicable, except that the Bank still may not pay cash dividends without the approval of the FDIC. On March 17, 1981, the FDIC consented to the payment of a cash dividend of \$.10 per share on April 15, 1981.

In August 1979, the Securities and Exchange Commission commenced a private investigation regarding possible violations by the Corporation of the Securities Act of 1933 and the Securities Exchange Act of 1934. In the opinion of the Corporation's management and legal counsel, this investigation will not have a material adverse effect on the Corporation's financial position.

UNION COMMERCE CORPORATION

Litigation

The Corporation's wholly-owned subsidiaries are parties to a number of lawsuits, most of which are considered routine litigation incidental to their business and involve claims which do not represent a material risk.

However, in one pending lawsuit begun in 1976 certain former borrowers of The Union Commerce Bank have asserted a claim for approximately \$83 million in damages, \$50 million of which is claimed as punitive damages. The transactions involved in the case arose from real estate mortgage loans made by the bank to the borrowers where the bank disbursed approximately \$3,700,000. The borrowers failed to service their loans in accordance with the specified terms and the bank exercised its remedies by taking possession of the security. The bank is vigorously contesting the borrowers' claim and bank management is of the opinion that the lawsuit will be successfully defended. The claims involved in the pending case are substantially the same as those involved in an earlier case filed by the same borrowers which was voluntarily dismissed by them. The original case sought recovery of \$135 million in damages.

In July, 1978, the United States Department of Labor issued a show cause letter to The Union Commerce Bank and began an investigation of the bank's hiring, promotion, and other personnel policies. In August, 1979, the Department alleged that it had found evidence of past discriminatory practices affecting minorities and females. An initial conciliation demand was made upon the bank, which included among other things a demand for back pay for members of the affected class, and the Department reasserted its show cause demand, inviting the bank to respond as to why a complaint should not be brought in an administrative law proceeding for

(continued)

debarment from Federal contracts. The bank believes that its employment practices meet applicable current standards. The bank is vigorously contesting the allegations regarding past discriminatory practices and believes that it has substantial and meritorious defenses in connection with any such allegations, and that the ultimate disposition of the matter will not have a material effect upon the bank's financial position or results of operations. The conciliation process is continuing. No administrative action has yet been begun and the bank has been assured by the Department of Labor that no action will be commenced until all conciliation efforts have been exhausted.

EXAMPLES Restriction on payment of dividends to holding company (footnotes)

DOMINION BANKSHARES CORPORATION

Restrictions on Payment of Dividends

Dominion's principal source of funds for dividend payments is dividends received from its affiliates. Under applicable Federal laws, the Comptroller of the Currency (in respect of Dominion's eight affiliate banks which are national banking associations), restricts the total dividend payments of any such bank in any calendar year to the net profits of that year, as defined, combined with retained net profits for the two preceding years. At December 31, 1980, retained net profits for the years 1980 and 1979 which were free of such restriction amounted to \$22,641,000.

Under the applicable laws of Virginia (in respect of Dominion's six affiliate banks which were organized under the laws of Virginia), there was \$16,642,000 of undivided profits at December 31, 1980, that was free of dividend restrictions in 1981. In addition, Virginia regulatory authorities may limit the payment of dividends by any state bank when it is determined such limitation is in the public interest and is necessary to insure the financial soundness of the bank.

BANK OF NEW YORK COMPANY, INC.

Dividends Available from the Bank

Under the Federal Reserve Act, the approval of the Board of Governors of the Federal Reserve System is required if dividends declared by the Bank in any year exceed the net profits of that year, as defined, combined with the retained net profits for the two preceding years. During 1981 the Bank could, without approval of the Board of Governors of the Federal Reserve System, declare dividends amounting to \$44,431,000 plus the net profits of the Bank in 1981.

BANC OHIO CORPORATION

Restrictions on Subsidiary Dividends

The primary source of funds for the dividends paid by BancOhio Corporation are dividends received from its two subsidiary banks. Dividends paid by the banks are subject to restrictions by banking regulations. The most restrictive provisions apply to BancOhio National Bank, the Corporation's principal subsidiary, and require prior approval by the Comptroller of the Currency if the dividends declared in any year exceed the year's net income, as defined, plus the retained net profits of the two preceding years. Primarily as a result of the reduced level of 1980 net income, BancOhio National Bank, as of January 1, 1981, is restricted from paying dividends without regulatory consent. Approval for the payment of a dividend in the first quarter of 1981 was received from the Comptroller of the Currency.

HORIZON BANCORP

Dividends

Under Federal law, the approval of the Comptroller of the Currency is required for the payment of dividends in any calendar year by American National and Marine National, as national banks, to Horizon, if the total of all dividends declared by such banks in any calendar year exceeds their net profits (as defined) for that year combined with their retained net profits for the preceding two calendar years. Under this formula, as of December 31, 1980, American National and Marine National can declare dividends in 1981 without approval of the Comptroller of approximately \$8,662,000 and \$837,000, respectively, plus or minus an amount equal to their net profits or net losses, as the case may be, for 1981. Princeton Bank, Northeastern Bank and Creditcorp may pay dividends to Horizon when and as declared by their respective boards of directors out of retained earnings in accordance with New Jersey law. As of December 31, 1980, Princeton Bank, Northeastern Bank and Creditcorp had retained earnings of \$7,170,000, \$1,530,000 and \$523,000, respectively. The Federal bank regulatory agencies have authority under the Financial Institutions Supervisory Act to prohibit Horizon's subsidiary banks from engaging in unsafe or unsound practices in conducting their business. The payment of dividends could, depending upon the financial condition of a bank, be considered an unsafe or unsound practice by such agencies.

TOLEDO TRUSTCORP, INC.

Undivided Profits Available for Dividends

The principal source of funds for the Corporation is cash dividends received from subsidiary banks. The subsidiaries had undivided profits of \$38,200,000 at December 31, 1980. Approximately \$300,000 of such undivided profits, along with amounts available from 1981 net income, can be used for payment of dividends in 1981 without obtaining prior approval from bank regulatory agencies.

EXAMPLES Restriction on payment of dividends
to shareholders (footnotes)

CONTINENTAL BANK

Subordinated Capital Notes

The 7-1/2% capital notes are redeemable at the Bank's option after April 1, 1982 at their principal amount, plus accrued interest. The notes are unsecured and are subordinated in right of payment to claims of depositors and other creditors of the Bank. Monthly, the Bank is required to transfer on its books from undivided profits to a capital note reserve an amount equal to 1/168th of the aggregate principal amount of capital notes then outstanding, up to 50% of such outstanding principal.

Amounts so transferred (December 31, 1980--\$8,482) are not available for payments of dividends. The Bank is not required to designate or set aside any assets to fund the capital note reserve.

FIRST ALABAMA BANKSHARES, INC.

The debenture purchase agreement for the 8-3/4% debentures and the credit agreements for notes payable to an unaffiliated bank contain certain restrictions on indebtedness, disposition of affiliate banks, creation of liens on property, and the payment of dividends. The most restrictive of the dividend covenants allows First Alabama, in each fiscal year, to pay a dividend equal to 40% of consolidated net income for the immediately preceding four quarters. At December 31, 1980, the amount available for dividends payment in 1981 was \$10,130,000. Dividends paid by First Alabama are substantially provided by subsidiary bank dividends. Statutory limits are placed on the amount of dividends banks can pay without prior bank regulatory approval. At December 31, 1980, affiliate banks could pay \$66,000,000 in dividends without prior approval. Management believes that none of these dividend restrictions will materially affect dividend policy.

WILMINGTON TRUST COMPANY

Dividend Restrictions

The ability to pay dividends is limited by the provisions of Delaware Law (5 Del. C. Section 748) which requires the maintenance of a Capital Surplus account equal to the Common Stock amount, currently \$12,500,000. In addition, there are certain covenants of the Subordinated Capital Notes which restrict the amount of dividends payable to net income, plus \$10,000,000, after January 1, 1977. On December 31, 1980, the amount available for dividends is \$23,410,174.

CHAPTER 4

Management Reports

Summary

A "management report" is issued by management to affirm its responsibility for the financial statements. It may also include comments on related subjects such as the adequacy of internal controls and the roles of the audit committee and of the independent and internal auditors.

The inclusion of management reports in annual reports to shareholders arises primarily from recommendations of the Committee on Auditors Responsibility (Cohen Commission) the American Institute of Certified Public Accountants and the Financial Executives Institute (FEI).

In 1979, The Securities and Exchange Commission proposed that companies report on the adequacy of internal accounting controls. Although this proposal was withdrawn in 1980, the SEC continues to recommend voluntary reports. Among its recommendations are that management reports should:

1. Include an assessment of the internal control system.
2. Cover more than internal accounting controls, such as management's responsibility for the financial statements as recommended by the FEI.
3. Report as of a point-in-time, such as the fiscal year end, rather than the entire year.

One of the reasons the SEC decided not to adopt rules for public reporting on internal controls was the substantial increase in management reports presented in 1979 annual shareholders reports.

Table 14 indicates that the percentage of survey companies that included management reports continued to increase from the prior year levels.

Table 14. Management Reports

	Commercial Banks		Holding Companies	
	80	79	80	79
Reports in which a management report was:				
Included	15%	11%	40%	24%
Not included	85	89	60	76
	100%	100%	100%	100%

The SEC expects voluntary disclosure to increase and will look to companies and independent auditors to further develop means of monitoring and reporting on systems of internal control. The SEC will continue to review the private sector's progress in reporting on internal control and will reconsider the need for rules based upon that review.

EXAMPLES Management reports

BANKAMERICA CORPORATION

Management is responsible for the preparation and presentation of the financial statements on the following pages, which provide the formal report on the results of BankAmerica Corporation's operations for the year 1980 and financial condition at year end. In the opinion of management, the information herein is fairly stated and, to that end, procedures are maintained which produce reliable accounting records, supported by a system of adequate internal controls. These procedures include formal delegations of authority; maintenance of a financial planning system; internal auditing and credit examination functions; a corporate code of conduct; quality standards in hiring and training of employees; emphasis on competence and integrity of personnel and accountability for performance; and issuance of standard practice manuals and guides. The financial accounting process, which encompasses data collection and report preparation, is governed by United States generally accepted accounting principles and the requirements of the Securities and Exchange Commission and banking regulatory agencies. The Board of Directors maintains an Auditing and Examining Committee of directors who are neither officers nor employees of the corporation. The committee periodically meets with management and with the internal and external auditors to assure that the financial accounting and audit process is properly conducted.

Ernst & Whinney, independent accountants, have examined the financial statements herein. Their examination was made in accordance with generally accepted auditing standards.

FIRST EMPIRE STATE CORPORATION

Management is responsible for the financial statements and the other information in this Annual Report. This responsibility includes the preparation of the statements in accordance with generally accepted accounting principles appropriate in the circumstances and consistently applied, the fairness of the estimates and judgments required and the reliability of the underlying data.

To meet this responsibility, management maintains a system of internal controls, provides for the training of personnel, promulgates written policies and codes of conduct and, in general, seeks to create an atmosphere conducive to proper reporting and ethical behavior.

Management also assures that the internal auditors and the independent public accountants have full and free access to the Audit Committee of the Company's Board of Directors and the respective examining committees of the bank subsidiaries' boards.

No member of those committees is an officer or employee of the Company or its subsidiaries and none is otherwise involved in their day-to-day opera-

tions. Among the duties of the Audit Committee is recommending to the Company's Board of Directors the firm to be selected as the Company's independent public accountants.

Based on the above-mentioned and other controls, policies, relationships and independent reviews, management believes that the responsibility described in the first paragraph has been fulfilled in all material respects.

KEY BANKS INC.

Key Banks is responsible for the preparation and presentation of the financial statements contained in this Annual Report and Form 10-K. Key Banks believes that the financial statements have been prepared in conformity with generally accepted accounting principles, that the principles selected are appropriate in the circumstances and have been consistently applied, that the financial statements reflect in all material respects the substance of events and transactions that should be included and that the amounts contained in the financial statements are based on Key Banks' best estimates and judgment. Financial information contained elsewhere herein is believed to be consistent with that in the financial statements.

Key Banks has long recognized the importance of maintaining the highest possible standards of conduct in all of its actions. To this end, it has developed a system of internal accounting control which is designed to provide reasonable assurance that assets are safeguarded and transactions are executed in accordance with appropriate corporate authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. This system includes written policies and procedures and is administered by an internal audit staff which, in order to provide it with a substantial degree of independence, reports to the Audit Committee of the Board of Directors. Key Banks recognizes that because of cost-benefit considerations and other inherent limitations on the effectiveness of any internal accounting control system some errors and irregularities may occur. However, Key Banks believes that its internal accounting system provides reasonable assurance that errors or irregularities that could be material to the financial statements are prevented or would be detected on a timely basis and corrected in the normal course of business.

In addition to the meetings the Audit Committee holds to study and discuss reports made by the internal auditors, it also meets to evaluate the audit independence of the independent accountants, Ernst & Whinney, to review with the independent accountants the scope and results of the annual audit, to review the performance by the independent accountants of its audit related and other professional services and to approve guidelines under which Key Banks may engage the independent accountants to perform non-audit services. These meetings are generally held on the initiative of the Audit Committee but a meeting may be requested at any time by Key Banks Administrative Vice President responsi-

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ble for the internal audit functions or by the independent accountants. Audit Committee meetings are attended by only those members of Key Banks who are asked to attend, thus permitting the Committee to hold private sessions.

FIRST BANK SYSTEM, INC.

The financial statements of First Bank System, Inc. were prepared by management, which is responsible for their integrity and objectivity. The statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances and include amounts that are based on management's best estimates and judgment. All financial information in the Annual Report is consistent with that in the financial statements.

The Company maintains accounting and internal control systems which are believed to provide reasonable assurance that assets are safeguarded and transactions are properly authorized and recorded. To monitor compliance with its system of internal controls, the Company carries out an extensive internal audit program. This program includes a review for compliance with written policies and procedures and a comprehensive review of the adequacy and effectiveness of internal control systems. However, there are limits inherent in all systems of internal accounting control and management recognizes that errors or irregularities may occur. Based on the recognition that the costs of such systems should not exceed the benefits to be derived, management believes the Company's system provides an appropriate cost/benefit balance.

The Company's independent auditors, Ernst & Whinney, have been engaged to render an opinion on the financial statements. Their opinion is based on procedures performed in accordance with generally accepted auditing standards, including tests of the accounting records to the extent necessary to allow them to report on the fairness of the financial statements. Both internal auditors and Ernst & Whinney have full access to the Examination and Audit Committee.

The Management of the Company is committed to, and has always maintained and enforced, a philosophy of high ethical standards in the conduct of its business. Written policies covering conflicts of interest and other subjects are formulated in a Code of Ethics which is uniformly applicable to all officers and employees of the Company.

FIRST NATIONAL BANCORPORATION, INC.

Management of The First National Bancorporation, Inc. prepared the financial statements and other financial information appearing in this Annual Report in accordance with generally accepted accounting principles and banking industry accounting practices. Consequently, management is responsible for the completeness and objectivity of the financial statements, the estimations and judgments made in preparation of the statements and the consistency of other financial information with the statements.

The Parent Company and subsidiaries maintain accounting and internal control systems designed to provide reasonable assurance, considering cost effectiveness, that assets are properly recorded and retained and that reliable financial statements can be prepared from the accounting records.

The Parent Company has an internal audit and examination staff, independent of subsidiary managements, which conducts continuous audits of subsidiary transactions and records and which visits each subsidiary annually to review internal control, perform operational audits, and examine asset accountability and quality.

The accompanying financial statements have been examined by Deloitte Haskins & Sells, independent certified public accountants. As stated in their opinion, their examination is conducted in accordance with generally accepted auditing standards and includes a review of internal control, tests of transactions and evaluation of accounting practices and procedures.

Deloitte Haskins & Sells has examined the financial statements of the Company and its subsidiaries since 1971.

The Parent Company's Audit Committee, composed of outside Directors, met five times during 1980 with the Chief Auditor and Chief Examination Director, representatives of the independent certified public accountants and management personnel. Responsibilities of the Committee include:

- Review of the scope of internal audits and examinations with the Chief Auditor and Chief Examination Director,

- Review of internal audit and examination staff and independent certified public accountant reports on internal control and suggestions for improving accounting and financial procedures,

- Assessment with the independent certified public accountants of the competency of assigned internal personnel, and

- Review of the Annual Report to Stockholders prior to publication.

UNITED VIRGINIA BANKSHARES INCORPORATED

The financial statements have been prepared by management in accordance with generally accepted accounting principles and include some amounts that are necessarily based on our best estimates and judgments. We are responsible for the integrity, objectivity, consistency and fair presentation of the financial statements and all other financial information contained in this Annual Report. One way we fulfill these responsibilities is by relying on a system of internal accounting controls which has been designed to safeguard the Corporation's assets from material loss or misuse. The system also is designed to insure that transactions are properly authorized and recorded in our financial records. Because of inherent limitations on any system of controls, there can be no absolute assurance that errors or irregularities will not occur.

Nevertheless, we believe that our system of internal accounting controls provides reasonable assurance that our financial records are reliable.

Some of the financial information in this Annual Report is presented on a taxable-equivalent basis to improve comparative analysis. However, in all other respects, it is consistent with the audited financial statements.

Through its Audit Committee, which is comprised of directors who are not officers or employees of the Corporation, the Board of Directors fulfills its oversight responsibility for determining that the accounting policies employed by management, in preparing the Corporation's financial statements, are reasonable and that our system of internal accounting controls is adequately reviewed and maintained. The Committee reviews periodically, with management and the internal auditors, accounting policies, control procedures and audit and regulatory examination reports of the Corporation and its subsidiaries. In addition, our independent certified public accountants meet periodically with and have full and free access to the Committee, privately and with us present, to discuss the results of their examination and other auditing, accounting and financial reporting matters. The Committee reports periodically to the full Board.

Peat, Marwick, Mitchell & Co. have examined the accompanying financial statements. Their report represents their judgment as to whether our financial statements, considered in their entirety, present fairly our financial condition and results of operations in conformity with generally accepted accounting principles.

We are committed to ensure that corporate affairs are conducted in accordance with consistently applied standards of conduct applicable to all officers and employees. In essence, everyone is expected to manage their responsibilities with complete honesty, candor and integrity. Our standards provide guidance on general business conduct, political activities, community involvement, conflict of interests, personal finances and the use and safeguard of confidential information.

FOURTH FINANCIAL CORPORATION

Management is responsible for the content of the financial statements included in this annual report and the information contained in other sections of this annual report, which information is believed to be consistent with the content of the financial statements. Management believes that the financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances to reflect, in all material respects, the substance of events and transactions that should be included. The financial statements of necessity reflect management's judgments and estimates as to the effects of events and transactions that are accounted for or disclosed.

Management has long recognized the importance of the Corporation's maintaining and reinforcing the highest possible standards of conduct in all of its

actions, including the preparation and dissemination of the statements fairly presenting the financial condition of the Corporation. In this regard, it has developed a system of internal accounting control which plays an important role in assisting management in fulfilling its responsibilities in preparing the Corporation's financial statements. The Corporation's system of internal accounting is designed to provide reasonable assurance that assets are safeguarded and that transactions are executed in accordance with management's authorizations and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. This system is augmented by written policies and procedures and by an independent internal audit staff, which reports to the Audit Committee of the Board of Directors. Management recognizes that because of cost-benefit considerations and other inherent limitations on the effectiveness of any internal accounting control system, some errors and irregularities may occur. However, management believes that the Corporation's internal accounting control system provides reasonable assurance that errors or irregularities that could be material to the financial statements are prevented or would be detected on a timely basis and corrected in the normal course of business.

The Audit Committee of the Board of Directors, composed entirely of outside Directors, has responsibility for the selection of independent certified public accountants for the Corporation. The Audit Committee reviews with the independent certified public accountants the scope of their audit and audit reports and meets with them on a scheduled basis to review their findings and any action to be taken thereon. In addition, the Committee meets with the internal auditors and with management to review the scope of the internal audit program and the performance and findings of the internal audit staff and any action to be taken by management. The independent certified public accountants and the internal auditors have free access to the Committee without management being present, as the Committee deems necessary.

The independent certified public accountants are engaged, in their annual audit function, to express an opinion on the Corporation's financial statements, which opinion is to be based on their performance of generally accepted auditing procedures believed by them to be sufficient to provide reasonable assurance that the financial statements included in this annual report are not materially misleading and do not contain material errors.

In addition, each year the Corporation and its subsidiaries are subject to numerous regulatory examinations. In 1980 the Comptroller of the Currency performed Commercial Bank, Electronic Data Processing, Trust and Consumer Affairs examinations; the Federal Reserve Board examined the Corporation; the Internal Revenue Service examined the 1978 and 1979 tax returns; and the Federal Deposit Insurance Corporation examined deposit reporting of the bank subsidiary. All exceptions identified were minor and were corrected immediately.

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TENNESSEE VALLEY BANCORP, INC.

Management of Tennessee Valley Bancorp is responsible for the integrity of the consolidated financial statements and related financial information included in this report. The financial statements and related notes were prepared by the Corporation in accordance with generally accepted accounting principles appropriate in the circumstances, and necessarily include some amounts that are based on management's best estimates and judgements with appropriate consideration to materiality. Financial information elsewhere in this Annual Report is consistent with that in the financial statements.

The Corporation's financial statements have been examined, in accordance with generally accepted auditing standards, by Ernst & Whinney, independent auditors. Their report, which expresses an unqualified opinion on the fairness of the financial statements, appears on this page. In connection with their examination, the auditors have reported to management and the Corporation's Audit Committee that their study and evaluation of the Corporation's system of internal accounting control did not disclose any material weaknesses. It is, however, recognized that such study is based on selective tests of records and related data and would not necessarily disclose all weaknesses, if any, which might exist.

The Corporation's Audit Committee is composed of five Directors who are not officers or employees of the Corporation. The Audit Committee meets quarterly with management, the independent auditors, and the internal auditors to review the scope and adequacy of internal accounting controls and approve significant practices and accounting principles affecting the Corporation's financial statements. Both sets of auditors have direct access to the Audit Committee and meet at each meeting without the presence of management to discuss appropriate matters.

The Corporation maintains policies and procedures regarding, among other things, accounting principles, expenditures, business conduct, and internal accounting controls. Ongoing audit programs are carried out to monitor compliance with these policies and procedures. We believe that this provides reasonable assurance that our operations are conducted with a high standard of business conduct.

CHAPTER 5

Management's Discussion and Analysis of Financial Condition and Results of Operations

Summary

In 1980 the SEC revised the management's discussion section of the annual report to shareholders and titled it "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The revised discussion is described in Item 11 of Regulation S-K. As its title implies, the focus of management's discussion has been shifted from the summary of operations to the financial statements. The changes include the following:

The discussion is now centered on three specific areas: liquidity, capital resources (including debt, equity, and any off balance sheet financing arrangements), and results of operations. Within each area, emphasis is placed on discussing trends and significant events or uncertainties.

Percentage materiality tests have been eliminated but "material changes" still require discussion, with the focus of the discussion expanded to include financial condition as well as the statement of income. An explanation of the impact of inflation and changing prices (on revenues and income from continuing operations) is required for all companies, including those not required to present the disclosure specified by FASB Statement No. 33.

Presentation of forward-looking information is encouraged, but not required. Any forward-looking information supplied would be covered by the SEC's safe harbor rule for projections.

Discussion of industry segment information may be included in management's discussion if, in the company's judgment, it is appropriate to an understanding of the business.

The SEC also replaced the summary of operations with a table of selected financial data that highlights significant trends in the company's financial condition and results of operations. The information must be given in a comparative format for five years (the SEC states that additional years are required if necessary to keep the information from being misleading). The information is required in annual shareholders' reports and Form 10-K and, as described in Item 10 of Regulation S-K, should include:

Net revenues.

Income (loss) from continuing operations and the related per common share amounts.

Total assets.

Long-term obligations and redeemable preferred stock.

Cash dividends declared per common share.

The instructions state that other information to help understand the highlights and trends in financial condition and results of operations also could be included. Many banks and bank holding companies already include extensive analytical information and various financial ratios in their financial highlights section.

Federal bank regulations also require non-SEC registrant commercial banks issuing annual reports to shareholders to include in those reports, information similar to that required in the SEC's "management's discussion" and "table of selected financial data" sections. The federal bank regulators' rules for these sections generally are not as extensive nor as specific as the rules issued by the SEC. However, many commercial banks conform to the SEC's requirements.

Companies presenting supplementary information required by FASB Statement No. 33 are encouraged to combine those disclosures with the disclosure of selected financial data. The results of our survey of FASB Statement No. 33 disclosures in 1980 shareholders reports and examples of presentations of the required information are included in Chapter 6.

Eighty-five percent of the surveyed commercial banks and 100% of the surveyed holding companies include management's discussion and analysis in the shareholders report. Table 15 outlines specific topics covered by the discussion and the percentage of surveyed companies that discussed the item.

Table 15. Management's Discussion Topics*

	Commercial Banks	Holding Companies
Financial condition	77%	97%
Results of operations	82	99
Liquidity	42	88
Effects of inflation	28	81
Interest rate sensitivity	47	80
Capital resources	37	86
Loan losses	67	90

*Not surveyed in 1979.

EXAMPLE Management's discussion and analysis of financial condition and results of operations

BANKAMERICA CORPORATION

Financial Statements Analysis And Risk Management

Financial Statements Analysis

This section reviews the year's results as reported in BankAmerica Corporation's financial statements and describes how the corporation deals with the risks inherent in its business.

In 1980, a number of diverse developments caused changes in BankAmerica's major revenue and expense factors, which in turn resulted in the 7.1 percent gain--29 cents--in the corporation's earnings per share from the previous year. The principal factors supporting the advance in 1980 were a marked increase in noninterest revenue and a higher level of earning assets. Partly offsetting these positive factors were greater personnel and other noninterest expenses and a decline in net interest margin ("spread").

To evaluate these influences on earnings per share growth, it is helpful to review the important factors of the previous two years. In 1978, both spread and the growth of earning assets had been the primary contributors to the 82-cent increase while other noninterest expense was the principal negative factor. In 1979, a narrowing spread became a major negative factor, while growth of assets, a change in the effective tax rate, and an improved noninterest expense margin contributed to the 57-cent growth in earnings per share.

BankAmerica is highly diversified, both geographically and in the types of business it conducts, including: retail banking for consumers, domestic wholesale banking for businesses, foreign lending, foreign exchange activities, and a variety of fee services. Each of these lines of business contributes a different combination of revenue types, operating expenses, and degree of risk to the corporation, producing distinct effects on the income statement and distinct levels of profitability.

Thus, shifts in BankAmerica's mix of business--affected by business cycles, exchange rates, interest rates, government policies, and corporate strategies--have a dominant effect on earnings progress.

Net Interest Revenue

Net interest revenue--by far the largest component of the income statement--is the difference between the interest earned on loans and investments and the interest paid on deposits and other sources of funds. It increased 7.5 percent in 1980 to \$3.0 billion on a taxable-equivalent basis (Table 4).

Net interest revenue can be looked at as the product of earning assets (volume) and margin (spreads). A strong gain in net interest revenue in 1978 was

achieved as a result of increases in both volume and spreads, while 1979's growth in net interest revenue came despite a decline in spreads. In 1980, as shown in Table 5, the gain in net interest revenue again resulted from an increase in earning assets, partially offset by declining spreads.

Earning assets averaged \$86.3 billion in 1980, up 9.6 percent from 1979 but slower than the five-year growth rate of 11.9 percent. Average domestic loans increased 17.7 percent to \$37.7 billion and average foreign loans increased 8.9 percent to \$23.1 billion. During the past few years, domestic loans have increased as a proportion of total loans. Within the domestic portfolio, real estate loans accounted for more than half the growth, increasing 24 percent for the year to \$14.8 billion, while consumer loans grew 22.1 percent to \$9.5 billion. Both real estate and consumer loans showed strong growth from early 1978 until introduction of the Special Credit Restraint Program in March 1980. Since then, growth in both categories has flattened.

The changes in mix of average earning assets, of average total loans, and of average sources of funds are shown in Tables 6, 7, and 8.

Net interest margin declined for the second year in a row, from 3.52 percent in 1979 to 3.45 percent in 1980. An increase in overseas spreads from 2.29 to 2.42 percent was more than offset by a weakening in domestic spreads from 4.46 to 4.26 percent.

Domestic spreads depend mainly on three factors:

- 1) Business mix: Retail lending has significantly higher operating expenses and generally higher credit risk than wholesale lending, both of which must be covered by higher interest spreads. The proportion of retail and wholesale business has remained fairly constant over the last few years, but spreads have narrowed in both areas due to increased competition.
- 2) Regulated interest rates: When interest paid on deposits is below money market rates because of regulations limiting rates that banks can offer on passbook savings and small retail time deposits, a profit is generated. In 1980, the relaxation of some regulatory restrictions, combined with the availability of higher-rate deposit instruments, caused a decline in the earnings from this source and contributed to reduced domestic spreads.
- 3) Asset and liability maturities and the impact of interest rate movements: The major reason for the decline in domestic spread in 1980 was the sizable imbalance ("mismatch") in maturities of assets and liabilities. These maturities are difficult to match when the bank attempts to accommodate its customers' preference for fixed-rate loans and variable-rate deposits. Continued growth in fixed-rate real estate and consumer loans, plus the erosion of stable-rate consumer deposits, caused this mismatch to increase through the spring of 1980, after which it narrowed. With short-term interest rates considerably higher than long-term rates in 1980, the spread earned on long-term assets funded with short-term liabilities was negative.

(continued)

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Overseas spreads also contain a mismatch component due to funding assets with shorter-term liabilities. This component made a positive contribution in 1980, while the basic overseas business spread component declined.

The domestic spread was helped by a \$23 million after-tax gain in the fourth quarter, which resulted from management's decision to repurchase some of the corporation's long-term debt, thus prefunding future sinking fund requirements and taking advantage of certain tax benefits that will not be available in the future.

Table 4. Taxable-equivalent Adjustment*

(Dollar amounts in millions)	1980	1979	1978	1977	1976	1975
Interest revenue	\$11,276	\$8,864	\$6,447	\$4,978	\$4,445	\$4,379
Taxable-equivalent adjustment	198	181	192	170	107	107
Interest revenue on a taxable-equivalent basis	11,474	9,045	6,639	5,148	4,552	4,486
Interest expense	(8,495)	(6,275)	(4,159)	(3,139)	(2,832)	(2,878)
Net interest revenue on a taxable-equivalent basis	<u>\$ 2,979</u>	<u>\$2,770</u>	<u>\$2,480</u>	<u>\$2,009</u>	<u>\$1,720</u>	<u>\$1,608</u>

*Taxable-equivalent adjustments are made to place the corporation's entire portfolio on a comparable basis by treating all interest income items as if they were fully taxed.

Table 5. Analysis of Increase in Net Interest Revenue*

(Dollar amounts in millions)	Increase 1980 over 1979	
Components Affecting Net Interest Revenue:		
Margin--ratio of net interest revenue to average earning assets	\$(54.7)	(26.25)%
Volume--average earning assets	263.2	126.25
Total increase in net interest revenue	<u>\$208.5</u>	<u>100.00%</u>

*Taxable equivalent.

Table 6. Major Components of Average Earning Assets

	1980	1979	1978	1977	1976	1975
Interest-earning Deposits	19.6%	18.0%	17.2%	17.3%	18.4%	18.6%
Securities	9.0%	11.5%	13.0%	15.0%	15.4%	16.9%
Net Loans	68.3%	65.8%	64.3%	61.5%	60.4%	60.3%
Other Earning Assets	3.1%	4.7%	5.5%	6.2%	5.8%	4.2%

Table 7. Major Components of Average Total Loans

	1980	1979	1978	1977	1976	1975
Domestic Real Estate	24.4%	22.5%	21.5%	20.1%	19.1%	19.3%
Domestic Consumer	15.7%	14.6%	12.9%	11.7%	11.0%	11.3%
Commercial and Other Domestic	21.9%	23.0%	23.8%	25.0%	27.8%	28.5%
Foreign	38.0%	39.9%	41.8%	43.2%	42.1%	40.9%

Table 8. Major Components of Average Sources of Funds

	1980	1979	1978	1977	1976	1975
Demand Deposits	16.1%	16.8%	17.7%	18.0%	18.6%	19.0%
Consumer Time and Savings	14.0%	15.4%	17.6%	20.2%	18.5%	16.3%
Other Domestic Time	14.5%	12.1%	12.9%	9.9%	12.8%	18.5%
Foreign	35.6%	35.2%	33.1%	34.3%	34.5%	33.0%
Other Liabilities	16.3%	17.0%	15.2%	14.0%	12.3%	10.1%
Equity Capital	3.5%	3.5%	3.5%	3.6%	3.3%	3.1%

Other Revenues And ExpensesNoninterest Revenue

BankAmerica's noninterest revenue is derived from diverse sources; thus weakness in one area is often offset by strength in another. Some sources, such as fees from customer services, are based in retail banking. Others, such as letters of credit and acceptance commissions, are related to serving business customers. And some, such as foreign exchange activities, arise in serving international markets. In 1980 noninterest revenue increased 36.2 percent to \$798.3 million, far surpassing the five-year growth rate of 16.1 percent. The gain in noninterest revenue was the principal factor in the earnings growth achieved in 1980, contributing \$0.52 to earnings per share growth.

The growth of noninterest revenue during 1980 was produced by strong advances in several major categories. The "other revenue" component, bolstered by commissions on letters of credit and bankers' acceptances as well as certain nonrecurring items, rose 50.7 percent to \$472.2 million. For borrowers engaged in trade, bankers' acceptances usually represent a less costly source of funds than conventional loans and are especially attractive during periods of high interest rates--as reflected in their substantial growth over the past two years. The nonrecurring items included gains on sale of leased assets, disposition of equity investments abroad, and adoption of the market-value method of accounting for publicly traded securities held by the corporation's small business investment subsidiary.

Greater volume and higher service fees also brought gains in other areas: Service charges on deposit accounts contributed the second largest amount to the increase, rising 32 percent to \$93.4 million, significantly above the growth of the past few years; foreign exchange activities, still the second largest element in the category, grew 10.8 percent

to \$99.1 million, below the rates of growth of the past two years; revenues from fiduciary activities fees increased 11.1 percent and totaled \$60.5 million; business services fees advanced 13.5 percent to \$59.9 million; and trading securities profits and commissions increased 153.1 percent from the low level of 1979 to \$13.1 million. The ratio of noninterest revenue to average earning assets in 1980 was 0.92 percent, significantly above the 0.73 to 0.75 percent range of the preceding five years (Table 9).

Personnel Expense

As with other items on the income statement, personnel expense is principally determined by the types of activities BankAmerica Corporation conducts. Retail banking operations are highly people intensive, accounting for the largest share of the personnel expense. Wholesale banking is relatively less people intensive and therefore accounts for a much smaller share of this expense.

Salaries and employee benefits expense rose 16 percent during 1980 to \$1.3 billion reducing earnings per share growth by about \$0.25. A higher level of per employee salary and benefits was responsible for two-thirds of the 16 percent increase. During most of 1979, overall salary levels were restrained somewhat due to compliance with the Carter Administration's wage guidelines, resulting in only a 13.7 percent increase. In October 1979, the corporation granted employees a special merit salary increase. To enhance its ability to attract and retain qualified employees at all levels, BankAmerica also implemented an improved salary structure in January 1980.

Expansion of staff was responsible for the remaining one-third of the increase in personnel expense. The corporation's worldwide staff increased 6.7 percent, averaging 79,200 on a full-time equivalent basis in 1980. Continuing the pattern of recent years, a significant portion of the new employees joined Electronic Banking Services to provide new and better services.

Table 9. Revenue and Expense as a Percent of Average Earning Assets

	1980	1979	1978	1977	1976	1975
Ratios to Average Earning Assets						
Net interest revenue*	3.45%	3.52%	3.61%	3.30%	3.14%	3.21%
Noninterest revenue	0.92	0.74	0.75	0.73	0.73	0.73
Personnel expense	(1.55)	(1.46)	(1.47)	(1.44)	(1.40)	(1.30)
Other noninterest expense	(1.13)	(1.08)	(1.12)	(1.02)	(0.96)	(1.02)
Loan loss provision	(0.28)	(0.29)	(0.26)	(0.24)	(0.27)	(0.37)
Pretax income*	1.41	1.43	1.51	1.33	1.24	1.25
After-tax income	0.75	0.76	0.75	0.65	0.61	0.60

*Taxable equivalent.

(continued)

Other Noninterest Expense

These expenses include costs other than personnel expense--such as equipment, premises, travel, and supplies--incurred to support the operations of the corporation. These expenses, as with personnel expense, are heavily concentrated in retail banking operations.

During the year, other noninterest expense increased 14.9 percent to \$975.9 million, about the same rate of growth experienced over the past five years. Equipment costs, including the expenses associated with increased automation designed to yield productivity gains, grew at the fastest rate within the category, 25.8 percent, to \$152.6 million. These costs include the effect of an increasing trend toward lease rather than purchase and a larger base of equipment. Net occupancy expense rose 14.5 percent to \$208.5 million, while the remainder of other noninterest expenses increased 12.7 percent to \$614.8 million. The net negative effect of these other noninterest expenses on 1980 earnings per share growth was \$0.15.

Provision for Loan Losses

The provision for loan losses creates a reserve in anticipation of future losses, and when losses occur, they are charged against this reserve. The reserve is maintained at a level appropriate for the risk inherent in the loan portfolio, which changes with the loan mix. Thus, both the composition of outstanding loans and the stage of the business cycle affect the size of the loan loss reserve.

In 1980, the loan loss provision charged to income was \$241.5 million, 6.8 percent greater than the \$226.2 million in 1979, while net chargeoffs rose 33.7 percent to \$202.5 million for the year. The reserve for possible loan losses increased \$35 million, or 6.9 percent, to \$540 million. In line with management's evaluation of the economy, the year-end ratio of the reserve to loan outstandings declined from 0.88 percent in 1979 to 0.86 percent in 1980, the same level as in 1978. BankAmerica's loan loss policies and performance are discussed further in the Risk Management section of this report.

Income Taxes

After "taxable-equivalent" adjustments are made for more meaningful year-to-year comparisons, 1980 pre-tax income increased 8.3 percent to \$1,222.6 million. On this basis, the effective tax rate was 47.2 percent in 1980, up slightly from 46.8 percent in 1979.

U.S. taxes are not accrued on unremitted earnings of fully consolidated foreign subsidiaries because these earnings are generally reinvested for an indefinite period. If remitted, foreign tax credits would substantially reduce the taxes otherwise payable. Taxes are accrued on the unremitted earnings of equity affiliates (those subsidiaries in which the corporation owns a significant though not majority share) at the capital gain rate based on the assumption that ultimate tax liability will arise upon the sale of the investment.

The effective tax rate of the corporation reflects the proportion of income earned from foreign subsidiaries. In 1980, the smaller relative contribution of overseas subsidiaries to earnings was partially responsible for the slightly higher rate.

Income Before Securities Transactions And Net Income

Income before securities transactions, considered the key earnings figure for a banking institution, rose 7.5 percent in 1980 to \$645 million.

Net income--or income after securities transactions--in 1980 was reduced by a \$1.6 million after-tax loss in the sale of portfolio securities. Most of this loss occurred in the third quarter of the year when management sold lower-yielding securities in order to reinvest the proceeds in higher-yielding assets in the expectation that these investments would provide greater future earnings.

Capital Structure

A key strength of BankAmerica is the ability of its management to control risk. Supported by well-tested techniques to manage the risks associated with granting credit, conducting business in various currencies, paying and receiving interest, and managing its liquidity, BankAmerica has produced a stream of earnings sufficient to absorb several times the current level of losses resulting from credit risk. Guidelines for pricing to cover the risks inherent in specific assets are followed to produce appropriate returns. A minimum return on equity objective of 15 percent has been established, with higher profit objectives required of those categories of business that exhibit greater uncertainty of return.

The corporation has improved its ratio of capital to assets over the past several years, contrary to the trend at most other money center and large regional banks.

BankAmerica's capital management policy provides a balanced return to shareholders--directly through cash dividends and indirectly through the retention of earnings that creates the additional equity needed as a base for the future growth in assets, earnings, and dividends of the corporation. The corporation's internal capital generation rate has averaged 11.7 percent over the past five years, one of the highest rates in the banking industry. By maintaining a healthy capital base, BankAmerica retains the capacity both to absorb significant future changes in the risk composition of its assets and to take advantage of opportunities for profitable expansion.

Of course, the ultimate measure of capital strength is in the marketplace, where BankAmerica has been accorded the highest ratings on its bonds and obtains the best rates on its certificates of deposit, and where its stock has sold at the highest level relative to book value of any major bank holding company. Legislative attempts to mandate a uniform capital ratio for banking institutions fail to account for the wide variation of these factors within the industry.

Risk Management

At BankAmerica Corporation, importance is assigned to managing both domestic and overseas asset quality, liquidity risk, interest rate risk, foreign exchange exposures, and country risk in order to control the corporation's financial risk.

Asset Quality

BankAmerica maintains asset quality and controls credit risk through detailed credit analysis and proper documentation of new loans, periodic examination of outstanding credits, and prompt follow-up of problem loans. Exposure to loss from adverse economic conditions is reduced through portfolio diversification among countries, industries, and types of borrowers.

However intensive the safeguards, some borrowers will fail to repay. To compensate for this exposure to loss, appropriate risk premiums are included in the interest rates charged on loans. For some more profitable types of lending, it may be desirable to accept higher loan loss ratios and to charge correspondingly higher risk premiums. BankAmerica's earning power is its primary source of coverage for credit losses, and loss ratios must be evaluated in view of the overall profitability of the loan portfolio.

Net loan losses were higher in 1980, increasing by 33.7 percent from \$151 million in 1979 to \$203 million in 1980. As a percent of average loan outstandings, net loans charged off increased from 0.29 percent to 0.34 percent, after having risen from 0.23 percent in 1978. The loss rate in 1980 is still significantly below the 0.49 percent experienced at the trough of the last recession in 1975.

Although the impact of the recession was not as great in California as in other parts of the nation, individual borrowers still suffered from the economic downturn. The revised federal bankruptcy law also has tended to increase consumer loan losses.

Losses on loans to individuals increased from \$69.6 million in 1979 to \$100.4 million in 1980. As in 1979, most of this 44.3 percent increase was attributable to the higher loss ratio—1.05 percent in 1980 versus 0.89 percent in 1979—rather than loan growth.

Net losses on domestic business loans, primarily commercial and industrial, increased to \$62.1 million from \$13.1 million. Again, the increased loss ratio (0.47 percent versus 0.11 percent in 1979), rather than high volume, was the major factor in the rise. Losses were concentrated in small- and medium-size businesses, which were less able to weather the combined effect of declining sales and high interest rates.

Partially offsetting the increase in domestic losses was the performance of the foreign portfolio, in which net loan losses were down to \$38.1 million in 1980 against \$66.5 million in 1979—as compared with an increase from \$24.9 million in 1978. Despite major political and economic uncertainty throughout the world, the quality of the foreign loan portfolio has remained high, and loss ratios have stayed favorable.

Loan Loss Reserve Ratio Decreased

During 1978 and 1979, both years of economic expansion, the loan loss reserve expressed as a percentage of loans outstanding was built up from the 1977 level of 0.84 percent to 0.38 percent in anticipation of future losses. In 1980, a higher loss rate occurred because of the recessionary environment, and these higher losses were absorbed by the loan loss reserve. The ratio of loan loss reserve to loan outstandings was accordingly reduced to 0.86 percent. At year end, the reserve stood at \$540 million in 1980, compared with \$505 million in 1979 and \$429 million in 1978.

Country Risk

Country risk—the political, social, and economic factors affecting the credit-worthiness of individual nations—is carefully assessed at BankAmerica. Limits on the corporation's global exposure minimize the risk of this type of credit loss. Credit extended to non-U.S. borrowers increased 14.5 percent during 1980, as compared with growth of 3.4 percent during the previous year. The distribution of the loans among country categories has changed only slightly in recent years. Since 1978 the share of upper and intermediate middle income developing countries has increased while that of OPEC countries has decreased.

The local and nonlocal currency components of BankAmerica's country exposure are shown in Table 10. Local currency lending involves risks similar to those of domestic United States lending. At year end 1980, approximately 31 percent of loans and securities of all overseas units were denominated in local currencies, compared with 38 percent in 1979. This movement away from local currency lending occurred primarily in the industrialized and higher income developing countries.

Nonlocal currency lending involves greater country risk because the host country's ability to provide sufficient foreign exchange to service the debt may determine the borrower's ability to repay the loan. The 41 percent growth in 1980 in nonlocal currency loan outstandings occurred principally in loans with maturities of one year or less.

(continued)

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Table 10. Total Loans and Securities--Non-U.S. Borrowers by Domicile of Borrower at Year End
(In millions of U.S. dollar equivalents)

	1980	1979	Currency of Borrower's Country 1980	Currencies Foreign to Borrower's Country of Residence, 1980		
				Total	Under 1 Year	Over 1 Year
Industrialized Countries	\$13,226	\$11,618	\$6,221	\$ 7,005	\$ 4,331	\$2,674
Centrally Planned Countries*	823	846	0	823	616	207
Oil Exporting (OPEC) Countries	1,959	2,064	82	1,877	1,479	398
Developing Countries*						
Higher Income	615	551	164	451	289	162
Upper Middle Income	3,712	3,101	752	2,960	1,516	1,444
Intermediate Middle Income	4,170	2,954	420	3,750	2,119	1,631
Lower Middle Income	1,157	1,250	289	868	577	291
Low Income	446	420	198	248	147	101
Total	<u>\$26,108</u>	<u>\$22,804</u>	<u>\$8,126</u>	<u>\$17,982</u>	<u>\$11,074</u>	<u>\$6,908</u>

*Centrally Planned Countries and Developing Countries are classified according to World Bank definitions as of 1979. Classification of Developing Countries is based upon per capita income.

U.S.-Iranian Agreement

On January 20, 1981, the governments of the United States and Iran concluded an agreement providing for the release of the hostages, the unblocking of frozen Iranian assets, and the establishment of settlement procedures for claims against Iranian entities. Bank of America was affected by this agreement in various ways regarding both loans and deposits of Iranian customers. The bank transferred over \$2.8 billion--representing Iranian offshore deposits with interest at a rate demanded by the Iranian government but disputed by Bank of America--to the Bank of England as a part of this settlement. Bank of America agreed to these terms because of the urgent need for a settlement to achieve the hostage release.

The agreement provided for escrow accounts, held by a neutral party, into which funds were placed to cover syndicated and nonsyndicated loan claims and interest on deposits that remained in dispute at the time of the settlement. As this report went to press, almost all of the syndicated loans in which Bank of America participated had been paid. Issues relating to nonsyndicated loan claims and disputed interest are to be settled by a negotiation and arbitration procedure provided in the agreement. The bank continues to hold additional Iranian deposits in the United States that are the subject of numerous court actions and that may ultimately be paid into a domestic claims procedure for the satisfaction of nonbank claimants. Bank of America is actively pursuing the settlement of its remaining nonsyndicated loan and interest claims and believes that the desire of the Iranian government to resolve its obligations to the global banking community will lead to a satisfactory resolution of these issues.

Liquidity Management

The goal of liquidity management is to ensure that sufficient funds are available to meet the loan demand and deposit withdrawals of the corporation's worldwide customers. BankAmerica manages liquidity

through participation in diverse global money markets and through the active management of a portfolio of marketable securities and other short-term assets.

Domestic Liquidity Management

Retail deposits acquired through the California branch system continue to be a major source of funds for the domestic bank. To augment these deposits, BankAmerica issues a variety of money market instruments such as certificates of deposit.

BankAmerica enhances the acceptability of the corporation's liabilities and reduces its dependence on any particular market through the diversification of its participation in the money markets. These include negotiable certificates of deposit, federal funds bought, commercial paper, public time deposits, and other liabilities. Over the past few years, the corporation has maintained a stable level of market-based liabilities relative to total assets.

During the difficult market situation faced by BankAmerica in 1980, shorter-term liabilities were replaced by longer-term liabilities in an attempt to control interest-rate and liquidity risks. In accomplishing this:

Two issues of intermediate-term notes--of three-year and five-year maturities--were publicly placed in the U.S. market.

One issue of intermediate-term notes was placed privately.

Five-year negotiable certificates of deposit were marketed in an underwritten sale in the Eurodollar market.

Intermediate-term negotiable certificates of deposit were issued in the U.S. market with maturities from three to five years.

Also assisting the reduction of interest rate and liquidity risk was the sale of two issues of mortgage pass-through certificates.

In addition to raising funds through the issuance of obligations, liquidity is available from the corporation's portfolio of liquid assets. Along with cash and noninterest earning deposits, domestic liquid assets consist of marketable securities, federal funds sold, and other short-term investments.

Loan growth during the past few years has been funded partially by a reduction in liquid assets as a cost-effective alternative to the issuance of certificates of deposit. The liquidity of the securities portfolio has been improved by a shift from municipal to U.S. government securities.

Overseas Liquidity Management

The primary determinant of BankAmerica's international liquidity is the ability to secure deposits in the Eurocurrency markets. Marketable securities in excess of required reserves, interest-earning deposits placed with other banks, and local deposit sources within individual countries provide further international liquidity.

U.S. dollar-denominated loans and securities comprise 84.4 percent of the total global currency composition of BankAmerica's loans and securities. Of loans and securities booked outside the U.S., 48.6 percent were U.S. dollar denominated in 1980, down slightly from the 1979 level of 51.4 percent and the 1978 level of 52.9 percent.

Interest Rate Risk

Interest rate risk measures the sensitivity of net interest revenue to changes in the level of interest rates. As interest rates change in the market, the rates earned on average assets do not necessarily move in tandem with rates paid on liabilities. Differing rate sensitivities can arise when fixed-rate assets and liabilities have differing maturities. Furthermore, some assets and liabilities have no fixed maturities, and, depending on the direction of interest rate movements, some borrowers will repay loans and some depositors will withdraw funds prior to stated maturities. Interest-stable funds are defined as having interest rates that are relatively insensitive to market movements and "effective maturities" of one year or more.

Domestic Interest Rate Risk Management

The interest rate risk position is managed on both the asset and the liability sides of the balance sheet. By issuing interest-stable sources, such as intermediate- and long-term debt or certificates of deposit, BankAmerica has negated some of the effects of liberalized interest-rate ceilings and the rising costs of consumer deposits. Sales of intermediate-term securities in the open market and real estate loans via mortgage pass-through certificates allow the bank to meet additional real estate and consumer loan demand while restricting growth in interest-stable uses.

BankAmerica's domestic interest rate risk position of excess interest-stable uses expanded to 6.47 percent of total corporate assets during 1980, continuing

a trend started in late 1978. This percentage includes the positions of the domestic unconsolidated bank and the nonbank subsidiaries.

Strong growth in real estate and consumer lending from 1978 through early 1980 led to an increase of interest-stable uses of funds as a percent of total assets. Some of this growth was offset by maturing securities, sales of intermediate-term securities, and the issuance of mortgage pass-through certificates.

Interest-stable sources of funds have remained fairly constant in dollar terms since 1978, but have declined as a percentage of total assets. Growth in assets has been funded by interest-sensitive sources of funds.

Overseas Interest Rate Risk

Overseas interest rate risk is managed by controlling the maturity differences between overseas assets and liabilities in each currency. The off-shore asset and liability positions with maturities greater than one year were virtually matched. Within the under-one-year maturity category, assets had somewhat longer average maturities than liabilities but the size of this mismatch continued to be small as a percentage of total assets. The earnings resulting from this small mismatch position made a positive contribution to overseas spreads in 1980, as in 1979 and 1978.

Foreign Exchange Trading

Through a global network of trading units, BankAmerica makes markets in most internationally traded currencies. Foreign exchange trading risks are reduced and controlled by the diversification effect of trading among many currencies and units, by maintaining conservative currency trading position limits, and by the expertise of the corporation's currency traders.

Foreign exchange markets were especially volatile in 1980. Profit on foreign exchange trading activity increased 12.1 percent to \$101.1 million, crossing the \$100 million level for the first time in BankAmerica's history. This growth follows increases of 41.5 percent in 1979 and 17.9 percent in 1978. The continued strength of the corporation's trading performance can be attributed to increased customer business demands and the decentralization of trading operations throughout the world.

Translation Risk Management

Many of the corporation's overseas branches and subsidiaries require capital funding in local currencies. As foreign exchange rates change, these capital investments are subject to revaluation, which produces translation gains or losses. Translation risk management uses foreign exchange hedge contracts and the substitution of foreign currency liabilities to hedge these exposures. Translation losses (net of hedging) totaled \$2.0 million in 1980 compared with a \$0.7 million loss in 1979 and a \$6.2 million gain in 1978.

NORTHERN TRUST CORPORATION

Management's Discussion And Analysis Of Financial Condition And Results Of Operations

Financial Condition

The purpose of this discussion is to focus on the Corporation's financial condition, changes in financial condition, and the results of operations in order to provide a better understanding of the financial statements and the statistics presented elsewhere in this report.

The table below shows trends in the Corporation's major earning assets and sources of funds over the past three years. The major contributor to a steady increase in average earning assets has been growth in loan volume. Average domestic loans increased 15% in 1980 and 26% in 1979, reflecting expanded business development efforts with companies in the agricultural, commodities, and energy fields and generally strong loan demand. International loans increased 11% in 1980 and 16% in 1979 as a result of our business development efforts and loan demand in most geographic areas. Money market assets, which are primarily federal funds sold, securities purchased under agreements to resell, and Eurodollar time deposits, increased in 1980 due to greater Eurodollar deposits. Investment securities have

been reduced to \$624 million in 1980 from \$895 million in 1978, a decrease of 30% over the three-year period. Proceeds from the sale and maturity of these securities were reinvested in higher yielding earning assets, primarily loans. These changes resulted in a net increase in average earning assets of 8% in both 1980 and 1979.

Reflecting an industry trend, the principal increase in our source of funds has been in interest-related liabilities. These funds increased even though overall savings declined modestly over the past three years as customers found other higher yielding uses for their money. Other time deposits, which represent certificates of deposit \$100,000 and over, increased 6% to \$750 million in 1980, following an 18% gain in 1979. Foreign office deposits had a similar increase, up 7% in 1980 and 24% in 1979. The strongest growth in our source of funds was in federal funds purchased and other borrowings, up 24% in 1980 and 10% in 1979. These increases in interest-related funds were used to support loan growth as well as greater money market assets.

Net noninterest-related funds are demand deposits and equity capital reduced by reserves, cash and due from banks, and buildings and equipment. After a slight reduction in 1979, these funds increased 8% to \$838 million. The introduction of interest-bearing checking accounts, NOW accounts, in 1981 is expected to result in a reduction of personal demand deposits as a source of noninterest-related funds.

Average Earning Assets and Source of Funds

(In Thousands)	1980	1979	1978	Percentage Change	
				1980/79	1979/78
Average Earning Assets					
Loans and Leases--Domestic	\$1,969,113	\$1,717,215	\$1,361,434	14.7%	26.1%
--International	514,189	464,157	401,534	10.8	15.6
Total	2,483,302	2,181,372	1,762,968	13.8	23.7
Money Market Assets	1,179,380	1,022,834	1,014,161	15.3	0.9
Investment Securities					
U.S. Government, Federal Agency, and Other	364,340	394,215	533,566	(7.6)	(26.1)
Obligations of States and Political Subdivisions	259,192	325,503	361,704	(20.4)	(10.0)
Total	623,532	719,718	895,270	(13.4)	(19.6)
Trading Account Securities	140,471	157,989	109,639	(11.1)	44.1
Total Earning Assets	\$4,426,685	\$4,081,913	\$3,782,038	8.4%	7.9%
Average Source of Funds					
Deposits					
Savings	\$ 769,000	\$ 784,523	\$ 808,320	(2.0)%	(2.9)%
Other Time	749,516	705,044	597,194	6.3	18.1
Foreign Offices	920,315	859,338	693,440	7.1	24.0
Federal Funds Purchased and Other Borrowings	1,114,668	896,306	813,508	24.4	10.2
Notes Payable	35,082	60,000	60,000	(41.5)	-
Total Interest-Related Funds	3,588,581	3,305,411	2,972,462	8.6	11.2
Noninterest-Related Funds, net	838,104	776,502	809,576	7.9	(4.1)
Total Source of Funds	\$4,426,685	\$4,081,913	\$3,782,038	8.4%	7.9%

Liquidity And Rate Sensitivity

Liquidity. A primary function of asset and liability management is to assure the availability of adequate funds to meet loan commitments, deposit withdrawals, and maturing liabilities. The liquidity to meet these demands is provided by maturing assets, short-term liquid assets, and the ability to raise funds from external sources.

The monitoring of maturities, future commitments, and use of money market liabilities is most important to liquidity management. The management of our liquidity, both short- and long-term, focuses on our domestic position, international liquidity, and the combined overall position of the Bank.

External sources of funds provide liquidity through the use of short-term liabilities. These are designated "managed liabilities" which include certificates of deposit \$100,000 and over, short-term borrowed funds, and Eurodollar deposits. The level of these liabilities is changed from time to time depending on the Bank's requirements to finance loans and investments as well as the need to maintain internal liquidity through short-term money market assets. The Bank's management regularly reviews the amount of managed liabilities and the use of these funds.

Total managed liabilities increased to an average of \$2.8 billion in 1980 from \$2.5 billion in 1979 and \$2.1 billion in 1978, an increase of \$681 million over the three-year period. As there has been limited growth in demand and savings deposits in the banking system, managed liabilities have provided the major source of funds to finance asset expansion during this time.

A significant portion of these liabilities is used to finance money market assets. Hence, these assets are deducted from total managed liabilities in

determining our net managed liability position. Money market assets averaged \$1.2 billion in 1980, an increase of \$156 million from 1979. The resulting net managed liabilities, which are used to finance investment securities and loans, averaged \$1.6 billion in 1980 compared with \$1.4 billion in 1979 and \$1.1 billion in 1978.

Net managed liabilities were 29% of average assets in 1980 compared with 28% and 24% in the two prior years. These liabilities were equal to 5.7 times equity capital this last year compared with 5.4 times in 1979 and 4.3 times in 1978. This represents a conservative use of available external liquidity.

Rate Sensitivity. Closely related to liquidity management is asset and liability interest rate sensitivity management. Rate sensitive assets and liabilities can be repriced within a certain time period. We continuously monitor assets and liabilities which are rate sensitive within 91 days, 182 days, and one year. The management of the balance between our interest rate sensitive assets and liabilities is most important to the net interest income of the Bank, especially in periods of rapidly fluctuating rates such as were experienced this last year. A high ratio of rate sensitive assets to liabilities will tend to have a beneficial effect on net interest income during times of rising rates and a deleterious effect during periods of falling interest rates. It has been our policy to maintain a relatively balanced ratio. Careful management of this balance was partially responsible for the strong net interest income performance during the year. Our net interest margin improved to 3.29% in 1980 from 3.15% in 1979 and 3.02% in 1978. This margin combined with an increase in average earning assets provided a 13% higher net interest income in 1980 over 1979, which in turn was up 12% from 1978.

Average Managed Liabilities

(In Millions)	1980	1979	1978	Amount of Increase	
				1980/79	1979/78
Other Interest-Bearing Time	\$ 750	\$ 705	\$ 597	\$ 45	\$108
Short-Term Borrowings	1,115	896	814	219	82
Eurodollar Deposits	920	860	693	60	167
Total Managed Liabilities	2,785	2,461	2,104	324	357
Less: Money Market Assets	1,179	1,023	1,014	156	9
Net Managed Liabilities	<u>\$1,606</u>	<u>\$1,438</u>	<u>\$1,090</u>	<u>\$168</u>	<u>\$348</u>
Net Managed Liabilities To Average Assets	28.6%	28.2%	23.7%		
Net Managed Liabilities Times Average Equity Capital	5.7x	5.4x	4.3x		

(continued)

Capital

Among the most important concerns of bankers and regulators of our industry are capital and capital adequacy. Although capital notes and the reserve for loan losses, as well as equity, are frequently defined as bank capital, our primary focus is on equity capital as it relates to total assets and to total loans.

A primary objective is to maintain a conservative capital position in order to merit the confidence of our customers, investing public, and shareholders. To warrant this confidence we plan to maintain a strong capital position sufficient to absorb unforeseen financial shocks without impairing our financial strength. We also plan to maintain high quality assets and to generate earnings sufficient to support both increasing dividends and asset growth.

Stockholders' equity at year end was \$294 million, 5.0% of total assets, compared with 5.1% of total assets last year. Average equity in 1980 was \$283 million, equal to 5.1% of average assets and an increase of \$17 million over the previous year.

Although the relationship between average loans and equity has increased to 8.7 times in 1980 from 6.9 times in 1978, the ratio continues to be low. While it is expected that the rate of loan growth over the next several years will exceed the capital growth rate, the ratio of loans to equity will be kept at a conservative level.

A firm's capital must also be judged in relation to the quality of its assets. Ratings by Moody's Investors Service reflect the high quality of our

investment portfolio. Of our obligations of states and political subdivisions, 74% are rated Aaa or Aa. The amount of nonperforming loans is modest in relation to the size of our portfolio, and the ratio of net charge-offs to total loans has been low as detailed in the Analysis of Reserve for Loan Losses.

Although the Corporation has no specific plans which would require a significant increase in capital, it is important for the Corporation to have access to additional capital through retained earnings and the capital markets in order to support normal growth and possible acquisitions.

Our dividend record has been one of increasing dividends declared each year for the past 26 years. Dividends declared in 1980 were \$11.1 million, equal to 34% of income before security transactions compared with a payout ratio of 33% in 1979 and 31% in 1978. This ratio has allowed an internal equity growth rate on beginning capital of 8.0% in 1980 compared with 7.9% in 1979 and 8.0% in 1978.

Results Of Operations

Income before security transactions totaled \$33.1 million for 1980, a 9.0% increase from the \$30.4 million earned in 1979, which was up 5.4% from 1978.

A substantial increase in net interest income and trust fees over the three years, which was partially offset by increased operating expenses, was the primary reason for the earnings improvement. Net income after security transactions totaled \$31.2 million in 1980, an increase of 17.9% from 1979. The following table summarizes key consolidated financial data presented in more detail elsewhere in this financial review.

Summary of Selected Financial Data

(In Thousands)

	1980	1979	1978	1977	1976
Net Interest Income	\$ 117,682	\$ 102,706	\$ 89,124	\$ 75,099	\$ 74,833
Provision for Loan Losses	4,000	5,000	1,000	1,000	1,500
Other Income	62,183	54,884	50,416	44,875	45,264
Operating Expenses	139,895	120,062	107,551	91,874	87,019
Income before Security Gains or Losses	33,091	30,357	28,811	25,549	27,037
Net Security Gains (Losses)--after related tax effect	(1,848)	(3,860)	(2,713)	8	200
Net Income	31,243	26,497	26,098	25,557	27,237
Average Assets	5,605,686	5,101,400	4,590,655	4,060,242	3,576,804
Notes Payable at Year End	30,000	60,000	60,000	60,000	60,000
Per Share (Income figures based on average shares outstanding)					
Income before Security Gains or Losses	\$6.89	\$6.32	\$5.92	\$5.11	\$5.41
Net Income	6.51	5.52	5.36	5.11	5.45
Dividends Declared	2.32	2.10	1.86	1.72	1.66

Net Interest Income. Net interest income is the major source of operating income and totaled \$117.7 million in 1980. It is the difference between income generated from earning assets and the interest expense on funds used to support these assets. A more effective way of analyzing this category is to state it on a fully taxable equivalent basis (FTE) which gives effect to federal and Illinois income taxes not applicable to income on certain earning assets.

Net interest income (FTE) totaled \$145.7 million in 1980, \$128.6 million in 1979, and \$114.4 million in 1978. Higher interest rates and changes in the asset mix caused our net interest margin to increase to 3.29% in 1980 from 3.15% in 1979 and 3.02% in 1978. Loan volume rose 14.1% in 1980 and 23.9% in 1979, while investment securities decreased in both years, leading to an 8.4% increase in average earning assets in 1980 and a 7.9% increase in 1979. As a result of the improvement in the net interest margin and higher average earning assets, net interest income (FTE) improved 13.3% in 1980 and 12.4% in 1979.

Analysis of Net Interest Income (Taxable Equivalent)

(In Thousands)	1980	1979	1978	Percent Change	
				1980/79	1979/80
Interest Income	\$ 553,339	\$ 434,523	\$ 308,738	27.3%	40.7%
Taxable Equivalent Adjustment	27,989	25,880	25,276	8.1	2.4
Interest Income	581,328	460,403	334,014	26.3	37.8
Interest Expense	435,657	331,817	219,614	31.3	51.1
Net Interest Income	145,671	128,586	114,400	13.3	12.4
Average Volume					
Earning Assets	4,426,685	4,081,913	3,782,038	8.4	7.9
Interest-Related Funds	3,588,581	3,305,411	2,972,462	8.6	11.1
Noninterest-Related Funds	838,104	776,502	809,576	7.9	(4.1)
Average Rate					
Earning Assets	13.13%	11.28%	8.83%	1.85%	2.45%
Interest-Related Funds	12.14	10.04	7.39	2.10	2.65
Total Source of Funds	9.34	8.13	5.81	1.71	2.32
Net Interest Margin	3.29%	3.15%	3.02%	.14%	.13%

Other Income. Growth in trust fees has been strong over the past three years, increasing to \$48.8 million in 1980 from \$38.4 million in 1978. This increase has resulted from higher fee schedules and the development of new trust business, particularly master trust services for corporations. Over the past five years, trust fees have increased at a compound annual rate of 14%. The market value of assets administered totaled \$25.8 billion at year-end 1980, up 33% from 1979, while assets in 1979 increased 26% over 1978. Bond trading profits were \$1.4 million in 1980 compared with \$4.1 million in 1979 and \$3.5 million in 1978. Volatile interest rates throughout 1980 resulted in the lower bond trading profits for the year. Over the past three years, other operating income, consisting mainly of domestic and international banking fees and foreign exchange profits, has shown good growth and in 1980 was \$12.0 million.

Provision for Loan Losses. The loan portfolio is continuously reviewed to determine the adequacy of the reserve for loan losses. The amount of the provision is based upon domestic and international economic conditions, loan loss experience, changes in the character and size of the loan portfolio, and management's evaluation of the overall adequacy of the reserve for loan losses. The amount of the provision, which is a current expense, may be either

greater than or less than actual net charged-off loans. The provision amounted to \$4.0 million in 1980 compared with \$5.0 million in 1979 and \$1.0 million in 1978. Net charged-off loans in 1980 were \$2.7 million compared with \$5.0 million in 1979 and \$304,000 in 1978. The reserve for loan losses increased to \$27.5 million in 1980, equal to 0.96% of year-end loans.

Other Expenses. Operating expenses have risen steadily over the past three years, up 16.5% in 1980 and 11.6% in 1979. Business volume has continued to expand, requiring additional staff. Inflation has added to salary and other costs of doing business. Salary costs, the largest component of the non-interest-related expenses, are also increasing as a result of merit increases. Employee benefit costs remained basically unchanged between 1979 and 1978, the result of a lower pension expense due to changes made in the actuarial assumptions. However, increased staff levels, inflation, and the nonrecurring expense of a transition to a new medical plan caused these costs to increase 19% in 1980. Occupancy expenses were up 20% in 1980 and 6% in 1979. Substantial increases in property taxes were the principal factor in the 1980 increase. Business promotion, telephone, postage, computer, and other overhead costs were also up due to greater business activity and inflation.

(continued)

Provision for Income Taxes. The provision for income taxes for 1980 was \$2.9 million, up \$708,000 from \$2.2 million in 1979. The increase in the provision resulted from higher taxable income. Although income before taxes was higher in 1979 than in 1978, the provision for taxes remained the same due to increased tax-exempt income and the reduction in the federal tax rates to 46% from 48%.

Analysis Of The Effects Of Changing Prices

In 1979, the Financial Accounting Standards Board (FASB) adopted experimental stockholder disclosure requirements which are intended to relate the impact of inflation on the financial performance of corporations.

The requirements address both the effects of general inflation and the effects of changes in values of fixed assets and inventories. However, for the Corporation there is not a material difference between the two types of disclosures and only data adjusted for the effects of general inflation are shown. Following the guidelines set forth in the Statement of Financial Accounting Standards No. 33, the table below has been compiled to present required five-year comparative data which convert our historical figures into dollars consistent with the 1980 average price level. These figures are derived by adjusting historical data by the Consumer Price Index for All Urban Consumers (CPI-U) which is issued by the United States Department of Labor to reflect changes in the general purchasing power of the dollar.

In addition to being adjusted to constant dollars by the CPI-U, 1980 and 1979 income before security transactions, net income, and related per share figures have been reduced by additional depreciation, without tax benefit, that would be charged on the 1980 constant dollar value of buildings and equipment. Income before security transactions in 1980 on a historical basis was \$33.1 million or \$6.89 per share and \$30.4 million or \$6.32 per share

in 1979. When adjusted for depreciation as defined above, income before security transactions in 1980 is \$28.4 million or \$5.92 per share and \$30.7 million or \$6.39 per share in 1979. Net income in 1980 on a historical basis was \$31.2 million or \$6.51 per share and \$26.5 million or \$5.52 per share in 1979.

When adjusted for depreciation as defined above, net income in 1980 is \$26.6 million or \$5.54 per share and \$26.3 million or \$5.47 per share in 1979.

Corporations are also required to reflect the impact of the changes in the general purchasing power of the dollar on the corporation's net assets. A bank's net assets are represented by stockholders' equity adjusted to constant dollars by an average CPI-U factor, and if material, further adjusted by the increase in the value of nonmonetary assets. These nonmonetary assets consist of buildings, equipment, and trading account securities. At year-end 1980, net assets on a historical basis were \$294 million and at year-end 1979 were \$274 million. When adjusted as described above, net assets at year-end 1980 and 1979 were \$361 million and \$368 million, respectively. In addition, a disclosure is required to show the loss from a decline in the purchasing power of net monetary assets. Net monetary assets are cash and claims to cash, less liabilities, fixed in terms of dollars. The loss from the decline in the purchasing power of net monetary assets amounted to \$10.5 million in 1980 and \$4.4 million in 1979.

As can be seen in the above disclosure, the impact of inflation is difficult to assess. A bank's asset and liability structure is substantially different from that of an industrial company in that its assets and liabilities are primarily monetary. Movements in interest rates, which are a major determinant of bank profitability, do not necessarily change in the same way as prices of other goods and services. Although this information is helpful in showing the impact of inflation on financial results, it should only be used as a supplement to the financial data and analysis provided elsewhere in this report.

Selected Financial Data Adjusted for the Effects of Changing Prices

(In Thousands)	Stated in 1980 Constant Dollars				
	1980	1979	1978	1977	1976
Average Assets	\$5,684,000	\$5,862,000	\$5,860,000	\$5,580,000	\$5,228,000
Net Interest Income	117,682	116,595	112,568	102,118	108,322
Income before Security Gains or Losses	28,424	30,651	-	-	-
Net Income	26,576	26,269	-	-	-
Per Share					
Income before Security Gains or Losses	\$ 5.92	\$ 6.39	-	-	-
Net Income	5.54	5.47	-	-	-
Dividends Declared	2.32	2.38	2.35	2.34	2.40
Market Price at Year End	31.76	35.69	47.74	42.77	59.47
Net Assets at Year End	361,261	368,410	-	-	-
Loss from Decline in the Purchasing Power of Net Monetary Assets	10,544	4,401	-	-	-
Average Consumer Price Index	246.8	217.4	195.4	181.5	170.5

HIBERNIA CORPORATION

Management's Discussion And Analysis Of Financial Condition And Results Of Operations

The following analysis should be read in conjunction with the financial statements, notes and charts.

Financial Philosophy

Consistent earnings growth has been a key determinant in Hibernia's overall performance during the last seven years, and this remains a prime objective in the Company's future direction. Earnings improvements have resulted from the continued development and implementation of management policies designed to assure a flexible and liquid balance sheet posture in conjunction with an ongoing commitment to quality service for the Company's expanding local and regional marketplace. Specific strategies employed to achieve these objectives include the use of various asset/liability analysis techniques for matching asset/liability sensitivities and maturities; programs aimed at the expansion of the customer base and growth of stable sources of funds; as well as investments in people, systems, and equipment necessary to positively position Hibernia in the rapidly changing and highly competitive marketplace of the future.

Liquidity

Maintenance of ample liquidity to meet Hibernia's ongoing requirements is considered an essential aspect of the Company's financial plans. Various types of financial analyses are continually performed to ensure compliance with liquidity needs, including the use of an asset/liability diagnostic matrix and weekly forecasts to match interest sensitive assets to interest sensitive liabilities, focusing on the minimization of funding risks and the maintenance of a desired level of liquid funding sources. Hibernia's reputation in the local and regional marketplace provides access to various sources of funding, the most important of which is the flow of deposits. Growth in certain consumer type deposits and demand deposits have contributed to a growing base of stable core funds. Other funding sources include overnight federal funds--available from "downstream" correspondents; the Eurodollar market; the Federal Reserve Discount Window; and loan liquidity, which, coupled with the Company's reputation, enable Hibernia to maintain a liquid and flexible posture in a constantly changing economy.

Capital Adequacy

Future asset and profit expansion are dependent on an adequate equity capital base. Growth of equity capital for Hibernia stems from two primary sources: retained earnings and the issuance of new common stock. During the last five years Hibernia increased equity capital by \$27.4 million, of which \$23.0 million was supplied by retention of earnings and \$4.4 million by private placements of newly issued common stock.

Hibernia's leverage ratio (average assets/average equity) has improved over the last five years, and it currently approximates the industry norm. Management has focused on an improved leverage ratio while simultaneously improving the primary profitability measures of return on average assets (R.O.A.) and return on average equity (R.O.E.), as evidenced in the following table:

	R.O.A.	X	Leverage	=	R.O.E.
1980	1.12%	X	17.41	=	19.5%
1979	1.05%	X	17.62	=	18.5%
1978	.86%	X	19.42	=	16.7%
1977	.69%	X	20.43	=	14.1%
1976	.67%	X	19.85	=	13.3%
1975	.59%	X	20.68	=	12.2%

Capital Outlays

Banking has become a highly technological industry with growing sophistication requirements necessitating substantial outlays to remain competitive. In keeping with profit and service objectives, Hibernia has budgeted approximately \$4 million for capital expenditures during 1981. Major items include: renovation of an office building in downtown New Orleans acquired for use as headquarters for operations and data processing activities; branch office and other facility improvements; as well as the continued upgrading of key data processing systems. These improvements will be financed through retained earnings and core deposit growth, in line with management's financial philosophies.

Profitability Measures

Return on average assets (R.O.A.) and return on average equity (R.O.E.) are two key measures of profitability used by the banking industry to assess earnings performance.

Hibernia's R.O.A.--a measure of how effectively the Company's assets are employed--has risen consistently over the last five years. The R.O.A. of 1.12% earned in 1980 exceeds the .94% earned by banking companies of comparable size to Hibernia. This achievement represents a near doubling of Hibernia's return on assets since 1975.

R.O.E.--a measure of dollar return on capital invested--has also increased throughout the last five years. 1980's record return of 19.5% ranks Hibernia above industry comparatives, where 15% is considered excellent.

Analysis Of Income Before Securities Transactions

1980 Compared to 1979

Income before securities transactions continued to climb to record levels, increasing 18.8% to \$11.145 million in 1980. Comparable per share earnings were \$3.83 and \$3.26 for 1980 and 1979, respectively. Growth in net interest income and non-interest income were primarily responsible for the earnings increase.

(continued)

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Dollar and per share earnings for 1979 and 1980 are reconciled below.

	Dollars (in thousands)	Per Share
Income before securities transactions for 1979	\$ 9,383	\$ 3.26
Increase (decrease) due to change in:		
Net interest income (includes \$1,845,000/ \$.64 per share increase in tax-equivalent adjust- ment)	7,605	2.64
Provision for possible loan losses	(1,269)	(.44)
Non-interest income	1,539	.53
Non-interest expense	(4,059)	(1.41)
Income taxes (includes \$1,845,000/\$.64 per share increase in tax-equival- ent adjustment)	(2,054)	(.71)
Effect of new shares issued in 1979	--	(.04)
Income before securities transactions for 1980	<u>\$11,145</u>	<u>\$ 3.83</u>

Net Interest Income

Hibernia's earnings are primarily derived from net interest income--income earned on loans and investments less the cost of deposits and other borrowings. The level of net interest income is determined by both the volume and yield of earning assets as well as the mix of supporting liabilities and rates paid thereon. Hibernia's financial management strategies--including core deposit development; consistent pricing of assets and liabilities in keeping with money market conditions; and maintenance of liquidity--were crucial to Hibernia's earnings growth during the economic turbulence of 1980.

Net interest income, on a fully tax-equivalent basis, increased \$7.605 million or 18.8% in 1980 over the previous year. The effects of volume and yield/rate changes are seen in the following table:

Increase (Decrease) in Tax-Equivalent Net Interest Income from 1979 to 1980 (Dollars in Thousands)		
Interest Income	Interest Expense	Net Interest Income

Due To:

Outstandings	\$10,041	\$ 6,035	\$4,006
Yields/Rates	13,227	9,628	3,599
	<u>\$23,268</u>	<u>\$15,663</u>	<u>\$7,605</u>

Net interest margin (N.I.M.)--net interest income (tax-equivalent) as a percent of average earning assets is a measurement of how effectively the Company managed the net interest income function. Hibernia's success in improving the net interest margin is demonstrated by expansion from 5.3% in 1979 to 5.7% in 1980. This was especially significant in light of the economic environment experienced during these periods. Hibernia's average

prime rate of 15.7% in 1980 was 297 basis points above 1979 levels. In addition, the prime rate reached record levels several times in 1980, ending the year at 21.5% as the Federal Reserve instituted measures to fight inflation and strengthen the dollar.

Average loans, the largest component of earning assets, increased \$55.3 million, or 11.6% from 1979, to \$532.2 million. This increase was the result of demand from both the commercial and consumer sectors. Although much of the country experienced a slowing of economic activity during 1980, Hibernia continued to experience a demand for credit.

Investment securities increased at a slower rate than other asset categories in keeping with management's assessment of portfolio needs and the goal of deploying funds in short-term liquid loans. The average maturity for tax-exempt securities was 8 years 10 months at year-end 1980 as compared with 9 years 4 months at year-end 1979. Moody's investor service has rated 90.6% of these securities A or better, compared to 88.7% in 1979. The average maturity in U.S. government and government agency securities was 3 years 0 months at year-end 1980 compared to 3 years 1 month at year-end 1979. The investment portfolio is reviewed regularly to identify securities that can be sold, generating tax benefits and cash proceeds which can be reinvested in higher yielding securities to provide liquidity and increase future earnings. Net securities losses of \$1.7 million were taken in 1980, compared to \$1.1 million in 1979.

The primary source of funds to support earning assets is deposits. Total average deposits increased \$43.1 million in 1980 to a level of \$715.3 million. Average demand deposits increased 7.3% to \$324.5 million. Interest bearing deposits increased 12.7%, with a major change in composition resulting from growth in consumer type Money Market certificates. These certificates have increased from \$11.8 million at year-end 1978, to \$45.5 million at year-end 1979, with final 1980 deposits equal to \$115.0 million. This trend, in management's opinion, will continue due to further changes legislated by Congress in the "Depository Institutions Deregulation and Monetary Control Act of 1980," as well as further modifications to Regulation Q promulgated by the Federal Reserve Bank.

Non-accrual loans, renegotiated loans and foreclosed properties totaled \$16.0 million or 1.5% of assets on December 31, 1980, compared to \$4.5 million or 0.5% of assets on December 31, 1979.

Provision for Possible Loan Losses

The provision for possible loan losses is a charge against earnings needed to maintain the reserve for possible loan losses at a level consistent with management's assessment of the risk inherent in the loan portfolio in light of current and projected economic conditions. Management performs a continual internal evaluation of the reserve adequacy as well as a joint review of the reserve with the independent auditors on a quarterly basis.

In 1980, the provision for possible loan losses totaled \$5.5 million, an increase of 30.3% from 1979. Net charge-offs totaled \$3.7 million or .70% of average loans compared to \$2.2 million or .47% of average loans in 1979. This increase resulted in large part from a defalcation by a former lending official whereby approximately \$4.8 million of fraudulent loans were charged to the reserve in 1980, offset by a \$4.2 million Blanket Bond insurance settlement.

Provision for possible loan losses exceeded net charge-offs by \$1.7 million, bringing ending reserves to \$10.2 million, a level considered adequate by management. The reserve amounted to 1.75% of loans on December 31, 1980 compared to 1.70% on December 31, 1979. A level of 1% or greater is considered to be a benchmark in the banking industry.

Non-Interest Income

Non-interest income--revenues from fees charged for various services to our customers--has increased at a five-year compounded rate of 16.7% since 1975. In 1980, non-interest income increased \$1.5 million or 26.5%. Contributing to this was a \$0.5 million or 21.5% increase in Trust service fees. Trust resources at year-end 1980 were approximately \$1.5 billion. Fees for deposit services have increased over 50% from 1979 as a result of increased activity, new accounts, and a modified service charge schedule based on market segmentation of services and the need to keep pace with inflationary pressures.

Non-Interest Expense

Non-interest expense was \$29.5 million in 1980--a \$4.1 million or 15.9% increase from the prior year. A method of evaluating the control of overhead expense is the ratio of net non-interest expense (non-interest expense less non-interest income) as a percent of net interest income (tax-equivalent)--to determine the net overhead cost borne by the net interest income function. As seen below, this ratio demonstrates that Hibernia has maintained a proportionate growth of income and expense.

Net Non-Interest Expense/Net Interest Income (T.E.)					
1975	1976	1977	1978	1979	1980
48.3%	50.2%	53.0%	51.3%	48.6%	46.2%

Staff costs account for over 50% of non-interest expenses, increasing 20.1% in 1980 to \$16.5 million. Normal merit increases, an increased number of employees in line with asset expansion, higher payroll taxes, and increased benefit costs were the primary reasons for staff expense growth. The remainder of the overhead expense increase was spread throughout occupancy, equipment and other expense categories, reflecting inflationary pressures, and growth of business activity. In 1980, a new Financial Control System was installed which will enhance the Company's ability to monitor and control expenses as well as significantly improve internal management accounting reports.

Shareholders' Equity

Shareholders' equity, as measured by book value per share, has grown at a compounded annual rate of over 10% since 1975. Equity increased \$6.3 million or 11.8% from year-end 1979 to year-end 1980, totally through retained earnings. In addition, the Company was able to increase cash dividends declared by 29.7% to \$3.1 million, or 33% of net income. Management is aware of the need to provide an adequate return to shareholders while building capital, and will continue to balance these considerations in the future.

Hibernia Corporation stock is traded in the over-the-counter market under the symbol HIBC. On December 31, 1980, there were 2,907,498 common shares outstanding which were owned by 2,822 holders of record.

Stock prices (Bid) and dividends declared per share (both adjusted for stock dividends) for the last two years by quarter were:

	1980		Cash
	Market High	Price* Low	Dividends Declared
I Quarter	\$19-3/4	\$14	\$.217
II Quarter	18-3/4	12-3/4	.25
III Quarter	25	18-1/4	.30
IV Quarter	26-1/4	22-3/4	.30

*Per NASDAQ

	1979		Cash
	Market High	Price* Low	Dividends Declared
I Quarter	\$14-1/8	\$13-1/4	\$.198
II Quarter	15-3/8	13-3/8	.198
III Quarter	17-1/4	13-7/8	.218
IV Quarter	17-3/8	14	.218

*Per NASDAQ

(continued)

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Management expects to continue regular quarterly cash dividends in keeping with earnings growth and capital requirements. Earnings by quarter for 1979-1980 are scheduled below.

Quarterly Financial Summary: 1979-1980

	1980			
	I	II	III	IV
	(All dollars in thousands except per share amounts)			
Interest Income	\$25,762	\$26,742	\$23,751	\$27,647
Net Interest Income	9,991	10,491	10,080	10,118
Provision for Possible Loan Losses	1,500	2,135	1,025	800
Income before Taxes and Securities Gains (Losses)	3,290	3,226	3,515	3,014
Income before Securities Gains (Losses)	2,735	2,591	3,074	2,745
Net Income	2,684	2,302	2,938	1,489
Per Share*				
Income before Securities Gains (Losses)	.94	.89	1.06	.94
Net Income	.92	.79	1.01	.52

*Adjusted for stock dividends

	1979			
	I	II	III	IV
	(All dollars in thousands except per share amounts)			
Interest Income	\$18,292	\$19,173	\$20,618	\$24,396
Net Interest Income	7,964	8,328	8,712	9,916
Provision for Possible Loan Losses	1,166	800	525	1,700
Income before Taxes and Securities Gains (Losses)	2,591	2,521	3,148	2,814
Income before Securities Gains (Losses)	2,318	2,151	2,646	2,268
Net Income	2,196	2,040	2,358	1,708
Per Share*				
Income before Securities Gains (Losses)	.81	.76	.91	.78
Net Income	.77	.72	.81	.59

*Adjusted for stock dividends

Analysis Of Income Before Securities Transactions

1979 Compared to 1978

Income before securities transactions increased by \$2.3 million or 32.5% over 1978. On a per share basis, earnings increased 23.0% to \$3.26. The increase in earnings was the result of continuing growth in net interest income and non-interest income, partially offset by an increase in non-interest expenses, provision for possible loan losses, and taxes.

Net interest income on a tax-equivalent basis increased 21.4% to \$40.4 million in 1979. Interest income (T.E.) increased \$21.6 million from 1978 resulting from increased commercial and consumer loan demand as well as higher yields in a rising money market rate environment. Interest expense increased from \$33.1 million in 1978 to \$47.6 million in 1979 due to increased volumes of interest bearing liabilities required to support earning assets and the higher rates paid for deposits and borrowings. Net interest margin increased 57 basis points to 5.32% during this period.

The provision for possible loan losses increased \$1.3 million to \$4.2 million in 1979, exceeding net charge-offs of \$2.2 million. This increase was made in anticipation of economic conditions in 1980. Reserves for loan losses equaled 1.70% of loans at year-end 1979 compared to 1.45% at year-end 1978.

Non-interest income was \$5.8 million in 1979--\$1.4 million or 30.3% higher than 1978. This was primarily attributable to increased Trust fees, service charges on deposits and other service, collection, and exchange fees resulting from increased volume, greater activity, and price adjustments in line with inflation.

Non-interest expense increased \$3.9 million or 18.2% for 1979 over 1978. This was primarily due to an increased level of employees to accommodate expanded business activity, higher fringe benefits costs, inflationary pressures, and new systems and equipment needed to continue Hibernia's development of service delivery capability.

Effects Of Inflation

The effects of inflation on the banking industry are materially different from those of other businesses. Companies with significant property, plant and equipment must carefully assess whether or not earnings are fairly stated in light of depreciation and amortization charges derived from historical cost instead of replacement cost. Industries whose inventories are a large portion of their financial positions may have "holding profits" that artificially inflate earnings.

In banking, however, where the asset and liability structure is predominantly monetary, with minor plant and equipment and virtually no inventory, the effects of inflation are not as readily apparent. Interest rates, which are not directly connected to inflation, but tend to correlate, have the most significant impact on earnings. The ability of a bank to maintain a favorable spread between the average yield on earning assets and the average cost of interest bearing liabilities is the prime determinant of profitability. Interest spread, or "margin," is generated by the mix and maturity of bank assets and liabilities. The general inflationary environment impacts a bank's assets and liabilities as follows:

- o The demand for credit, in the form of loans, is affected by business decisions to increase inventories and/or increase capacity as a hedge against higher prices as consumers buy goods and services in response to inflation psychology or future cost avoidance. Banks must, of course, acquire the funds to meet this demand for credit. Some of this funding comes from additional deposits derived from inflation-created revenue and wage increases. However, much of the funds must be generated through a combination of interest bearing time deposits or purchased funds, retained earnings, and the sale of debt or equity. The cost of such funding sources rises directly or indirectly from inflationary pressures. Federal Reserve actions to "combat" inflation, in fact, create a cost volatility for sources of funds used by banks to extend credit.
- o The deposit mix of banks is also changing as fixed rate deposits (including non-interest bearing demand deposits) are generally declining relative to total funds sources as a result of legislative actions to change the basic way banks do business. This trend necessitates the purchase of time deposit or interbank funds at costs which fluctuate with inflationary pressures and either increase or decrease the interest margin.
- o Asset growth results in the need for proportionate growth of equity capital to maintain favorable equity/asset ratios. The banking industry, then, must balance increases in dividends against the necessity to retain capital for future expansion.

Finally, bank overhead costs for personnel, occupancy and equipment tend to track inflation closely as banks are faced with continued technological and regulatory change and increasing competition from non-bank sources.

In summary, financial institutions experience rapid growth in demand for credit, increases in funding costs combined with rate volatility, pressure for capital growth and retention, and the need to coordinate interest bearing assets and liabilities to protect the net interest margin and service increasing overheads.

CHAPTER 6

Financial Reporting and Changing Prices

Summary

FASB Statement No. 33, "Financial Reporting and Changing Prices" established standards for reporting the effects of "general inflation" and changes in the prices of certain types of assets. The Statement was initially effective for 1979 reports. General inflation is described as a rise in the general level of prices or a decline in the general purchasing power of the dollar. According to the FASB, users of financial statements need information about measurements that are made in units having the same general purchasing power because conventional financial statements make no direct allowance for the variability of the monetary unit of measure. Thus the Statement required supplementary disclosure of certain items both on a constant dollar and current cost basis.

In 1980, all but three of the surveyed companies with more than \$1 billion in assets presented the supplemental information in their annual reports. In addition, one surveyed company, with less than \$1 billion in assets, voluntarily included the supplemental information. None of the surveyed companies had less than \$1 billion in assets but more than \$125 million in gross properties.

Current cost data was not required to be disclosed until 1980. The current cost amounts of property, plant, and equipment are relatively small for banks, and current cost adjustments to depreciation are usually not material. Seven percent of the surveyed companies included this information. Companies that did not disclose current cost data generally stated that the data would not differ materially from the presentation of constant dollar information.

Many of the surveyed companies stated reservations about the usefulness of the data in analyzing financial institutions and indicated that the FASB should reconsider the disclosures required by Statement No. 33.

Reporting inflation accounting information

An important feature of the Statement is its emphasis on narrative information to provide guidance to the reader in assessing the meaning and importance of the disclosures. Required by the Statement are:

- Explanation of the information disclosed and a discussion of its significance in the circumstances.

- The principal types of information used to calculate the current cost of properties and depreciation expense.

- A statement that no adjustments to, or allocations of, the amount of income tax expense in the primary financial statements were made in the computation of the supplemental information.

The information called for by the Statement has been presented either in an unaudited footnote, management's discussion, or elsewhere in the report text. Regardless of where the information is presented, certain review procedures (generally limited to inquiries) must be performed by the company's independent accountants. Reference to the supplemental data in the accountants' report is required only if the accountants are not satisfied with the company's presentation. The following table indicates where the reporting companies presented the information.

Table 16. Location of Inflation Accounting Disclosures

	Commercial Banks		Holding Companies	
	80	79	80	79
Reports that include disclosure in:				
Unaudited footnote	44%	50%	21%	40%
Management's discussion	30		57	5
Other report text	26	50	22	55
	100%	100%	100%	100%
Number of reports including inflation disclosures	27	16	161	167

The increase in the number of reports including the data in management's discussion reflects the response of the surveyed companies to the SEC's integrated disclosure rules which require analysis of the impact of inflation on income from continuing operations.

Measurement bases

The Statement requires companies to report under two fundamentally different measurement approaches; constant dollar and current cost accounting.

Constant dollar accounting is a method of reporting financial statement elements (such as assets and liabilities, revenues and expenses) in dollars that have the same purchasing power. Constant dollar accounting focuses on unit of measurement and attempts to eliminate effects of general inflation on the exchange value of the dollar. The index used to develop constant dollar information is the Consumer Price Index for All Urban Consumers (CPI), published in the *Monthly Labor Review* by the Bureau of Labor Statistics of the U.S. Department of Labor.

One distinctive element of the FASB's version of historical cost/constant dollar accounting is that the required supplemental disclosures reflect a partial application by focusing on only the items most affected by inflation. For banks, premises and equipment are normally the only balance sheet items affected by the Statement. The FASB does not require companies to compute the effect of inflation on other nonmonetary items such as investments in affiliates, intangible assets, other real estate owned, and deferred charges and credits.

Current cost accounting is "a method of measuring and reporting assets and expenses associated with the use or sale of assets, at their current cost or lower recoverable amount at the balance sheet date or at the date of use or sale." It quantifies the effect of specific price changes on a bank's assets rather than price changes caused by general inflation.

There are various types of information that can be used to determine the net current cost of properties. Indexing techniques are commonly used when determining current cost and avoid the need to determine the specific prices of individual assets. Generally the only requirements of indexing techniques are an aging of the historical cost of assets owned, and an appropriate index.

The principal disclosures required under the FASB's dual measurement approach are:

	Constant Dollar	Current Cost
Current Year Data:		
Income from continuing operations	x	x
Purchasing power gain or loss on net monetary items	x	x
Increases or decreases in the current cost of properties, net of inflation		x
Properties at year-end		x
Five Year Summary of Selected Data	x	x
Footnotes and Narrative Explanations	x	x

Current year constant dollar data

Table 17 indicates the percentage of surveyed companies that disclosed the current year effect of constant dollar depreciation on income from continuing operations and the type of format used by reporting companies to present the information. The table is based on companies disclosing information in the manner recommended by the Statement—either a statement or reconciliation format. Companies that did not make current year disclosures presumably did not have a material constant dollar depreciation adjustment and normally would state this fact in an explanatory footnote.

Table 17. Current Year Constant Dollar Data

	Commercial Banks		Holding Companies	
	80	79	80	79
Companies that reported current year constant dollar data in:				
Statement format	15%	19%	11%	10%
Reconciliation format	37	31	36	38
Other			2	2
	52	50	49	50
No current year disclosures made	48	50	51	50
	100%	100%	100%	100%

Purchasing power gain or loss

Current year information required by the Statement includes disclosure of the purchasing power gain or loss on net monetary items. Monetary items are money and claims to receive or pay a sum of money "the amount of which is fixed or determinable without reference to future prices of specific goods or services." During periods of inflation, the holding of cash and other monetary assets results in a loss of general purchasing power because a given amount of money will buy less at the end of the period than it would have at the beginning of the period. Conversely, continuing to owe monetary liabilities results in a gain in purchasing power because cheaper dollars will be used to repay the obligations. Because bank monetary assets are usually greater than monetary liabilities, banks will normally report a purchasing power loss.

Reporting companies are required to disclose their purchasing power gain or loss but shall not include it in the determination of income from continuing operations. Purchasing power gain or loss has been included with current year data, reported in the five-year summary, and included in the narrative

discussion. Table 18 shows how the surveyed companies presented this information.

Table 18. Purchasing Power Gain or Loss

	Commercial Banks		Holding Companies	
	80	79	80	79
Reports disclosing purchasing power gain or loss in:				
Current year data	18%	25%	10%	13%
Five-year summary	67	63	69	55
Both current year and five year summary	11	12	19	22
Narrative	4		2	10
	100%	100%	100%	100%

Five-year summary of selected financial data

Companies have a choice between using current year average constant dollars or base period dollars (1967) in developing the required five year summary of selected financial data. In 1980 substantially all of the reporting companies used average 1980 dollars rather than base period dollars. The five-year summary must include the following disclosures for each year, all stated in constant dollars.

Constant Dollar Basis

Revenues

Income from continuing operations

Income per common share from continuing operations

Net assets at year end

Purchasing power gain or loss on net monetary items

Cash dividends declared per common share

Market price per common share at year end

[Only revenues, cash dividends declared and per share market price information are required for years prior to 1979.]

Current Cost Basis

Income from continuing operations

Income per common share from continuing operations

Net assets at year end

Increases or decreases in current cost of properties, net of general inflation

Current cost information is not required for those years in the five-year summary for which income from continuing operations on a current cost basis is not materially different from income from continuing operations on a constant dollar basis.

The Statement requires that "net revenues" be presented in the five-year summary. For a bank, net revenues could mean:

Interest income

Net interest income before provision for loan losses

Net interest income after provision for loan losses

Other income in combination with each of the above

Neither the FASB Banking Task Group nor Statement No. 33 provide guidance concerning the proper amount to be presented for banks.

Table 19 shows how reporting companies presented net revenues in their five-year summary.

Table 19. Five-Year Summary—Presentation of "Net Revenues"

	Commercial Banks		Holding Companies	
	80	79	80	79
Reporting companies that presented net revenues as:				
Interest income	7%		4%	3%
Interest income and other income	19	32%	9	10
Net interest income after provision for loan losses	15	12	21	20
Net interest income	48	44	61	64
Net interest income and other income	11	12	5	3
	100%	100%	100%	100%

The current year constant dollar information and the five-year summary, required interpretation of the caption "income from continuing operations." Table 20 indicates the various captions used by the reporting companies.

Table 20. Five-Year Summary—Income From Continuing Operations

	Commercial Banks		Holding Companies	
	80	79	80	79
Reports in which the caption used was:				
Net income	44%	38%	34%	17%
Income before securities gains (losses)	7		9	3
Both net income and income before securities gains (losses)	30	56	48	55
Other	19	6	9	25
	100%	100%	100%	100%

We suggest in our inflation accounting publications, that, although not required by the Statement, it would be beneficial to financial statement users if comparative historical cost information was presented for the items included in the five-year summary. The examples of the five-year summary illustrate the extent of information presented, terminology used, and presentation of comparative historical cost data.

EXAMPLES FASB Statement No. 33 disclosures in management's discussion

MELLON NATIONAL CORPORATION

Changing Prices

The chart below presents selected financial statistics adjusted for the effects of changing prices as required by the Financial Accounting Standards Board in Statement No. 33, Financial Reporting and Changing Prices. Prior year financial data are stated in constant 1980 dollars based on changes in the Consumer Price Index for All Urban Consumers (CPI-U). Income before securities transactions has been further adjusted for the effect of depreciation calculated on fixed assets in constant 1980 dollars.

Changing Prices*

(In millions except per share and CPI-U amounts)

	Year ended December 31,				
	1976	1977	1978	1979	1980
Net interest income					
(As reported)	\$217.7	\$247.2	\$277.5	\$311.0	\$327.1
(Inflation adjusted)	315.1	336.1	350.5	353.1	327.1
Cash dividends declared per share					
(As reported)	\$1.30	\$1.375	\$1.55	\$1.84	\$1.89
(Inflation adjusted)	1.88	1.87	1.96	2.09	1.89
Income before securities transactions					
(As reported)	\$64.9	\$70.9	\$86.3	\$101.0	\$114.2
(Inflation adjusted)	88.6	91.2	103.6	109.7	109.4
Income before securities transactions per share					
(As reported)	\$3.31	\$3.62	\$4.40	\$5.15	\$5.82
(Inflation adjusted)	4.52	4.65	5.29	5.60	5.58
Market price (bid) per common share at year-end					
(As reported)	29	25-1/8	25-3/4	27-3/4	31-3/4
(Inflation adjusted)	42	34-1/8	32-1/2	31-1/2	31-3/4
CPI-U, average	170.5	181.5	195.4	217.4	246.8

*Income computed under the current cost method differs by less than 1% from the constant dollar computations, therefore, current cost data are not presented.

The Statement also requires the disclosure of certain 1979 and 1980 financial data adjusted for the effect of inflation on shareholders' equity, fixed assets and depreciation expense. On this basis, net income for 1979 and 1980 would have been \$104.4 million, or \$5.32 per share, and \$107.7 million, or \$5.49 per share. Shareholders' equity at December 31, 1979 and 1980, would have been \$922 million and \$901 million. The purchasing power loss on net monetary assets computed in accordance with the Statement would have been \$59.0 million for 1979 and \$49.7 million for 1980.

The erosion in value on net monetary assets is not a true loss in the sense of cash outflow. Rather, it represents a decline in the value of net monetary assets, supported by shareholders' equity, due to inflation.

Over the five-year period, several trends are illustrated by the above data. Dividends to shareholders have kept pace with inflation. Furthermore, the growth in income before securities transactions and net interest income have exceeded the rate of inflation, thus demonstrating the Corporation's success in achieving real increases in earnings.

BARNETT BANKS OF FLORIDA, INC.

Supplementary Data on the Effects of Inflation

Persistently high inflation rates have significantly influenced reported financial results in recent years. Financial institutions are affected differently than manufacturing enterprises by the effects of inflation. Property and equipment represent a relatively small proportion of financial institutions' total assets, and financing of large capital expenditures for new equipment is not a major concern.

However, since consumers and producers require additional funds to maintain a fixed level of assets, inventories or consumption, inflation does have the effect of increasing loan demand on financial institutions. This results in higher-than-normal growth of banking assets, and, therefore, directly influences the need for financial institutions to increase equity capital. The additional capital is required in order to maintain appropriate equity-to-assets ratios.

Maintaining an adequate ratio of equity capital to total assets requires banks to increase the rate of equity generated internally. The rate of internal capital generation is affected by the profitability of assets employed as well as by the level of dividends paid to shareholders. As shown in Table A, Barnett has been successful in increasing the rate of internally generated capital over the last six years--from 4.7% in 1976 to 11.9% in 1980. This growth has resulted primarily from increasing the return on average assets (based on net income) from 0.60% to 0.95% during that period.

Table A

Calculation of Internal Rate of Capital Generation

	<u>1980</u>	<u>1979</u>	<u>1978</u>	<u>1977</u>	<u>1976</u>
Return on assets (as a percentage of net income)	.95%	.92%	.80%	.61%	.60%
↑					
Equity as a percentage of total assets	5.90	6.07	6.21	6.65	7.06
=					
Return on equity	16.1	15.2	12.9	9.2	8.5
x					
Earnings retention rate	74.0	74.9	70.0	59.6	55.6
=					
Internal rate of capital generation	<u>11.9</u>	<u>11.4</u>	<u>9.1</u>	<u>5.5</u>	<u>4.7</u>

The second method adjusts for "changes in specific prices." Its goal is to reflect the effects of changes in specific prices (current costs) of resources actually used by Barnett. This method allows for measurement of these resources to reflect the current cost of replacing them rather than the historical amounts actually expended in acquisition.

In addition, a portion of the increase in capital growth was due to a decline in the ratio of dividends declared to net income from 44% in 1976 to 26% for 1980. During this period, however, the dividends declared per share also rose--from 72 cents to \$1.15. This 60% increase was higher than the rise in consumer prices during the same period.

Barnett's earnings also are affected by inflation, which influences separate income and expense categories in different ways. Although inflation produces an effect on interest rates, neither the timing nor the magnitude of interest rates changes coincide with changes in the Consumer Price Index (CPI). In the current volatile interest rate environment, liquidity and the management of the maturity structure of banking assets and liabilities is critical in maintaining acceptable profitability levels. For a discussion of how Barnett is positioned to deal with future fluctuations in interest rates, see the discussion of Liquidity in the Financial Review.

Inflation has a more direct impact on most categories of non-interest expenses. These expenses normally fluctuate more in line with changes in the CPI. Table B presents certain supplementary data designed to illustrate the impact of inflation on Barnett's financial results. Two methods for measuring the effects of changing prices were used in calculating this data. The first method provides data adjusted for "general inflation" using the Consumer Price Index for All Urban Consumers as a broadly based measure of general inflation. The objective of this approach is to provide financial information in dollars of equivalent purchasing power (constant dollars) so that revenues for each year are matched with expenses expressed in corresponding units.

Since none of the restatements in Table B are allowable for federal income tax purposes under existing regulations, income tax amounts are the same as in the historical cost statements--but expressed in constant dollars in the supplementary data.

It should be noted that both the "general inflation" and "changes in specific prices" methods inherently involve the use of assumptions, approximations and estimates. The results should be viewed in that

context and should not be perceived as precise indicators of the effects of inflation.

Although the impact of inflation cannot be measured precisely, the information in Table B shows a strong growth trend over the past several years, even after considering the effects of inflation. Constant-dollar net interest income has increased 67% since 1975, or 10.8% compounded annually. The Company's dividend rate has kept pace with inflation over the past five years when adjusted for constant dollars. The constant-dollar value of Barnett's common stock has increased at an 11.9% annual compound rate during the same period. Constant-dollar and current-cost net income and net income per share for

the past two years also have risen, after adjusting for the effects of general inflation and changes in specific prices.

Constant-dollar net assets at year-end represent historical amounts adjusted for the effects of general inflation. Current-cost net assets at year-end include similar adjustments, except that premises and equipment reflect changes in their specific prices. As shown in Table B, constant-dollar and current-cost net assets experienced much smaller growth when compared to historical net assets from 1979 to 1980. This resulted from the decrease in the purchasing power of net monetary assets and the excess of the rate of general inflation over specific price increases for premises and equipment.

Table B

Six-Year Comparison of Selected Supplementary Financial Data Adjusted for the Effects of Inflation

For the Years Ended December 31 (\$ Thousands)	1980	1979	1978	1977	1976	1975	Annual Compound Growth Rate
Historical Cost Information							
Net interest income	\$175,891	\$149,608	\$125,427	\$ 98,912	\$ 88,976	\$ 82,444	20.6%
Income before securities losses	38,044	32,139					18.4
Net income	37,693	31,271					20.5
Primary earnings per share:							
Income before securities losses	4.46	3.77					18.3
Net income	4.42	3.67					20.4
Net assets at year end	243,619	214,780					13.4
Cash dividends declared per share	1.15	.92	.82	.74	.72	.72	9.8
Market value per share at year end	29.50	19.25	19.25	16.63	15.50	11.00	21.8
Constant Dollar Information							
Net interest income	175,891	169,640	158,226	134,332	128,619	126,073	10.8
Income before securities losses	34,646	33,805					2.5
Net income	34,296	32,801					4.5
Primary earnings per share:							
Income before securities losses	4.06	3.97					2.3
Net income	4.02	3.85					4.4
Net assets at year end	306,575	296,576					3.4
Current Cost Information							
Net interest income	175,891	169,640	158,226	134,332	128,619	126,073	10.8
Income before securities losses	35,599	33,371					6.7
Net income	35,248	32,387					8.8
Primary earnings per share:							
Income before securities losses	4.17	3.92					6.4
Net income	4.13	3.80					5.4
Net assets at year end	286,668	285,588					.4
Increase in current cost of premises and equipment held during the year	13,277	13,100					1.4
Decrease in premises and equipment held during the year measured in constant dollars	4,939	6,789					(27.2)
Excess of the increase in the general price level over increases in specific prices of premises and equipment held during the year	18,216	19,889					(8.4)
Other Information							
Loss from decline in purchasing power of net monetary assets	9,030	9,965					(9.4)
Cash dividends declared per share	1.15	1.04	1.03	1.00	1.04	1.10	.9
Market price per share at year end	29.50	21.83	24.28	22.58	22.41	16.82	11.9
Average Consumer Price Index (1967 = 100)	246.5 ¹	217.4	195.4	181.5	170.5	161.2	8.9

¹The 1980 index is based on an estimated average for the year.

(continued)

The calculation of the decline in the purchasing power of net monetary assets is based on the premise that monetary assets decrease while monetary liabilities increase in purchasing power as the rate of general inflation increases. A bank holding company's operations are structured such that there will always be an excess of monetary assets over monetary liabilities and, consequently, this calculation will always show reduced purchasing power when prices are rising.

Table C shows 1980 earnings restated on both a constant-dollar basis and a current-cost basis. Depreciation has been computed by applying the same methods as used in determining the depreciation reported in the Consolidated Statements of Income.

Table C

Statement of Income Adjusted for Changing Prices

For the Year Ended December 31
(\$ Thousands)

Constant Dollar Information

Net income, as reported in the Consolidated Statements of Income	\$37,693
Less: Increase in depreciation expense to reflect the effect of general inflation	<u>3,397</u>
Net income	<u>\$34,296</u>

Current Cost Information

Net income, as reported in the Consolidated Statements of Income	\$37,693
Less: Increase in depreciation expense to reflect the effect of changes in specific prices	<u>2,445</u>
Net income	<u>\$35,248</u>

Monetary items (which include cash, securities, loans, deposits and debt) are those assets and liabilities which are or will be converted into a fixed number of dollars regardless of changes in prices. Non-monetary items (which include premises and equipment, real estate held for sale, and the cost of acquired affiliates in excess of net assets acquired) are those assets and liabilities which do not gain or lose general purchasing power solely as a result of general price level changes but are affected by the relationships between specific prices for the items as well as price change levels.

EXAMPLES FASB Statement No. 33 disclosures in unaudited footnote

STATE STREET BOSTON CORPORATION

Supplemental Information on the Effects of Changing Prices (Unaudited)

Statement of Income from Continuing Operations
Adjusted for Changing Prices
Year Ended December 31, 1980

(Dollars in thousands)

Net income, as reported in the income statement	\$21,916
Adjustment to restate depreciation for the effect of general inflation	<u>(2,069)</u>
Net income, adjusted for general inflation	<u>\$19,847</u>

Basis of Preparation of Supplementary Data

As required by Financial Accounting Standards Board (FASB) Statement No. 33, "Financial Reporting and Changing Prices," the Corporation must provide supplemental information concerning the effects of changing prices on its financial statements. Because there is presently no consensus on which aspect of inflation (if any) should be reported, the FASB has devised an experiment requiring certain large, publicly held companies to present supplemental information reflecting different types of inflation measurements.

A bank's asset and liability structure is substantially different from that of an industrial company, in that virtually all assets and liabilities of a bank are monetary in nature. Accordingly, changes in interest rates may have a significant impact on a bank's performance. Interest rates do not necessarily move in the same direction, or in the same magnitude, as the price of other goods and services. Reference to the various supplementary schedules shown elsewhere in this Annual Report will assist in the understanding of how well State Street is positioned to react to changing interest rates and inflationary trends. In particular, we direct attention to the summary of net interest income, the maturity distributions and compositions of the loan and security portfolios and the data on the interest sensitivity of loans and deposits.

Partial Application

The supplemental information on changing prices does not reflect a comprehensive application of changes in the general price level or specific price changes. In accordance with the FASB's decision to focus on those items most affected by changing prices, the information presents: (1) the effect of general inflation on properties and related depreciation expense, and (2) the effect of general inflation on monetary assets and liabilities. The

provision for income taxes included in the supplemental statement of income from continuing operations is the same as reported in the primary financial statements.

Loss from Decline in Purchasing Power of Net Monetary Assets

Calculation of the purchasing power loss on net monetary assets is based upon a theoretical concept. Under this concept, all monetary assets increase or decrease in value at the rate of the Consumer Price Index (CPI). Because a bank's monetary assets are greater than monetary liabilities, an increase in CPI would always result in a decline in the purchasing power of net assets. However, because there is no clear evidence that there is a relationship between the purchasing power of a bank's net assets and future earnings streams, the purchasing power loss on net monetary assets may not be reflective of the effect of inflationary trends on the bank's operations.

The following assets have been classified as non-monetary and were not included in the computation of the purchasing power loss on net monetary assets:

(Dollars in thousands)	1980
Premises and equipment	\$55,940
Other assets	8,742
	<u>\$64,682</u>

All liabilities were considered to be monetary for purposes of this computation.

Five-Year Comparison of Selected Supplemental Financial Data
Adjusted for Effects of Changing Prices*
In Average 1980 Dollars (except "as reported" amounts)

(Dollars in thousands, except per share data)	1980	1979	1978	1977	1976
Income before other operating expenses:					
As reported	\$140,106	\$117,115	\$ 94,994	\$ 74,140	\$ 78,519
Adjusted for general inflation	140,106	132,953	119,982	100,814	113,656
Net income:					
As reported	21,916	15,363	8,219	3,197	6,896
Adjusted for general inflation	19,847	17,851	8,794	2,786	8,833
Per share data:					
As reported	10.48	6.78	3.60	1.40	3.02
Adjusted for general inflation	9.49	6.99	3.86	1.23	3.87
Purchasing power loss from holding net monetary assets during the year	8,246	7,640	4,683	3,622	2,672
Net assets at year-end:					
As reported	142,944	127,744	118,913	114,000	114,565
Adjusted for general inflation	183,324	179,629	175,167	176,633	199,732
Cash dividends declared per common share:					
As reported	2.20	1.80	1.45	1.65	2.40
Adjusted for general inflation	2.18	2.04	1.83	2.25	3.47
Market price per common share at year-end:					
Historical amount	41.25	25.25	20.75	17.75	26.00
Adjusted for general inflation	39.40	27.10	25.24	23.54	36.81
Average Consumer Price Index	246.8	217.4	195.4	181.5	170.5

*Presented in accordance with the historical cost/constant dollar method of accounting. Because current cost amounts do not differ materially from historical cost/constant dollar amounts, current cost data has not been included.

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BAYBANKS, INC.

Selected Financial Data Adjusted for Inflation (Unaudited)

	1980	1979	1978	1977	1976
Average Consumer Price Index (1967 = 100)	246.8	217.4	195.4	181.5	170.5
Average GNP Implicit Price Deflator (1967 = 100)	224.6	206.1	192.4	179.4	169.2
1980 Dollar Equivalents					
Per average Consumer Price Index	\$ 1,000	\$ 1,135	\$ 1,263	\$ 1,360	\$ 1,448
Per average GNP Implicit Price Deflator	1,000	1,090	1,167	1,252	1,327
(Adjusted data below in average 1980 dollars, in thousands except for per share amounts.)					
Income on Earning Assets					
As reported	\$283,703	\$235,669	\$189,608	\$153,097	\$136,914
Adjusted by Consumer Price Index	283,703	267,540	239,484	208,178	198,184
Adjusted by GNP Implicit Price Deflator	283,703	256,823	221,341	191,670	181,743
Net Income					
As reported	26,545	22,432	17,959	13,189	10,946
Adjusted by Consumer Price Index	26,545	25,466	22,683	17,934	15,844
Adjusted by GNP Implicit Price Deflator	26,545	24,445	20,965	16,512	14,530
Net Income Per Share					
As reported	8.82	7.41	5.93	4.36	3.61
Adjusted by Consumer Price Index	8.82	8.41	7.49	5.93	5.23
Adjusted by GNP Implicit Price Deflator	8.82	8.08	6.92	5.46	4.79
Dividends Declared Per Share					
As reported	2.77-1/2		2.45	2.22	2.12
2.10					
Adjusted by Consumer Price Index	2.77-1/2		2.78	2.80	2.88
3.04					
Adjusted by GNP Implicit Price Deflator	2.77-1/2		2.67	2.59	2.65
2.79					
Market Price Per Share At Year-End					
As reported	36.50	31.75	31.25	26.75	30.00
Adjusted by Consumer Price Index	34.86	34.08	38.01	35.47	42.48
Adjusted by GNP Implicit Price Deflator	35.20	33.64	35.38	32.78	39.06
Net Assets At Year-End					
As reported	186,821	170,055			
Adjusted by Consumer Price Index	219,326	217,643			
Adjusted by GNP Implicit Price Deflator	212,462	200,850			
Loss in purchasing power of net monetary assets, per Consumer Price Index	13,800	15,514			
per GNP Implicit Price Deflator	11,078	7,876			

Had the reported amounts for 1980 and 1979 net income been adjusted to reflect the effects of general inflation on premises and equipment the results would be as follows:

	Adjusted by Consumer Price Index		Adjusted by GNP Implicit Price Deflator	
	1980	1979	1980	1979
Net income in 1980 dollars	\$26,545	\$25,466	\$26,545	\$24,445
Adjustment to restate depreciation expense for the effect of general inflation	3,734	3,240	3,034	2,721
Net income adjusted for the effect of general inflation on depreciation expense	\$22,811	\$22,226	\$23,511	\$21,724
Net income per share adjusted for the effect of general inflation on depreciation expense	\$7.58	\$7.34	\$7.81	\$7.17

Net income adjusted for the effect of specific price increases on premises and equipment does not differ materially from the amounts shown above.

MERCANTILE BANKSHARES CORPORATION

Supplemental Information on the Effects of Changing Prices (Unaudited)

As required by Financial Accounting Standards Board (FASB) Statement No. 33 "Financial Reporting and Changing Prices", Mercshares must provide supplemental information concerning the effects of changing prices on its financial statements. The information is intended to provide assistance in making a financial evaluation of the effects of inflation.

The asset and liability structure of financial institutions is substantially different from that of industrial corporations in that virtually all assets and liabilities are monetary in nature, meaning that they have been or will be converted into a fixed number of dollars regardless of changes in prices. Examples of monetary items include cash, loans and deposits. By holding net monetary assets during periods of rapid inflation, a decline in purchasing power will occur. Since obtaining favorable growth rates in assets is a primary objective of a financial institution, the amount of loss in purchasing power can be misleading. Nonmonetary items are those assets and liabilities which do not gain or lose general purchasing power solely as a result of general price level changes. Examples of nonmonetary items are premises, equipment and other real estate owned. Adjusting these specific nonmonetary

assets for changes in price levels raises their book values and related depreciation expense. The effect of the inflation-adjusted net monetary and nonmonetary assets (based on the original estimated lives, depreciation methods and salvage values of these assets) of Mercshares as of December 31, 1980 and 1979 is presented below:

	1980	1979
	(dollars in thousands, except per share data)	
Decline in purchasing power due to holding net monetary assets	\$ 10,496	\$ 10,334
Income before securities transactions	\$ 14,950	\$ 13,444
Per share (assumes conversion of all preferred stock)	\$2.65	\$2.37
Stockholders' equity	\$143,519	\$131,068

The following summary shows a five year comparison of selected supplementary data adjusted for the effects of changing prices. These amounts were calculated by adjusting historical data with the average Consumer Price Index for all urban consumers (CPI), issued by the United States Department of Labor, to reflect changes in the general purchasing power of the dollar. The resulting amounts are stated in equivalent 1980 dollars and are generally referred to as constant dollar amounts.

	1980	1979	1978	1977	1976
	(dollars in thousands, except per share data)				
Average consumer price index (1967 = 100.0)	246.8	217.4	195.4	181.5	170.5
CPI increase from prior year	13.5%	11.3%	7.7%	6.5%	5.8%
Total operating income	\$142,808	\$140,871	\$125,538	\$108,743	\$104,384
Net interest income	\$ 58,370	\$ 59,619	\$ 56,591	\$ 50,967	\$ 51,133
Per share data:					
Cash dividends--common	\$1.10	\$1.16	\$1.19	\$1.17	\$1.22
Market price--common (at year end)	15-3/4	12-3/8	13-5/8	15-7/8	18-1/4

A review of the above figures indicates that total operating income and net interest income increased at a rate greater than the change in the CPI between 1976 and 1980 while the value of cash dividends and market prices of common stock did not keep pace with the rate of inflation.

All data presented are based upon historical cost dollars adjusted to constant average 1980 dollars. Alternative current cost amounts, derived by adjusting specific assets for specific price changes, do not differ materially from historical cost/constant dollar-adjusted amounts.

In summary, considerable caution should be used in analyzing the impact of inflation on a financial institution's performance. Changes in interest rates could be the primary factor of performance and rates do not necessarily move in the same direction or with the same magnitude as consumer prices. The ability of a financial institution to cope with changing interest rates can only be determined by analysis of its asset and liability structure. Reference should be made to the various supplementary analyses shown elsewhere in this Annual Report for an evaluation of the ability of Mercshares to react to changing interest rates and inflationary trends.

EXAMPLES Current year constant dollar data in statement format

INDUSTRIAL NATIONAL CORPORATION

Statements of Income from Continuing Operations
Adjusted for Changing Prices

Year Ended December 31, 1980 (000 omitted)	As Reported in the Primary Statements	Adjusted for General Inflation
Net interest income	\$96,917	\$96,917
Provision for losses	14,878	14,878
Net interest income, net of provision for losses	82,039	82,039
Non interest income	48,798	48,798
	130,837	130,837
Depreciation and amor- tization	4,639	6,586
All other overhead	92,458	92,458
	97,097	99,044
Income before income taxes and securities transactions	33,740	31,793
Applicable income taxes	5,532	5,532
Income before securities transactions	28,208	26,261
Securities transactions	2	2
Income from continuing operations (net income)	\$28,210	\$26,263
Purchasing power gain/ (loss) from holding net monetary items during the year		\$(8,186)

SUBURBAN BANCORPORATION

Supplemental Information on the Effects of Changing
Prices (Unaudited)

Statement of Income from Continuing Opera- tions Adjusted for Changing Prices	Year Ended December 31, 1980	
	As Reported in the Primary Statements	Adjusted for General Inflation
(In Thousands of Dollars)		
Net interest income, after provision for loan losses	\$64,088	\$64,088
Other income	11,683	11,683
Depreciation expense	(2,821)	(3,985)
Other expense	(51,954)	(51,954)
Income before income taxes and net securi- ties losses	20,996	19,832
Income taxes	3,924	3,924
Income before net secur- ities losses	17,072	15,908
Net securities losses net of applicable income taxes of \$378	382	382
Net income	\$16,690	\$15,526
Other Information		
Purchasing power loss from holding net monetary assets dur- ing the year		\$ 8,840

BANK OF THE COMMONWEALTH

Supplemental Financial Data Adjusted for Effects of Changing Prices

	1980	1979	1978	1977	1976
Historical Cost Data--As Reported					
Interest Income	\$ 99,075	\$ 99,203	\$ 84,787	\$ 69,658	\$ 64,742
Interest Expense	66,679	62,572	47,809	38,621	36,932
Net Interest Income	32,396	36,631	36,978	31,037	27,810
Provision for Loan Losses	2,446	2,791	5,813	1,853	3,504
Other Operating Expense, net	29,798	34,126	34,103	28,539	26,640
Income (Loss) before Securities Transactions	152	(286)	(2,938)	645	(2,334)
Securities gains (losses)	(50)	17	(61)	3	516
Extraordinary item	-	-	63	375	394
Net Income (Loss)	\$ 102	\$ (269)	\$ (2,936)	\$ 1,023	\$ (1,424)
Per Share--Income (loss) before securities transactions	\$.03	\$ (.06)	\$ (.66)	\$.15	\$ (1.13)
Securities gains (losses)	(.01)	-	(.01)	-	.25
Extraordinary item	-	-	.01	.08	.19
Net Income (Loss)	\$.02	\$ (.06)	\$ (.66)	\$.23	\$ (.69)
Market Price Per Share, December 31	\$.50	\$ 1.00	\$ 1.75	\$ 1.25	\$.50
Long-Term Debt, December 31	\$ 42,534	\$ 44,520	\$ 44,645	\$ 45,450	\$ 46,252
Net Monetary Assets, December 31	\$ 15,894	\$ 15,791	\$ 16,060	\$ 18,996	\$ 17,973
Average Total Assets	\$1,043,954	\$1,107,855	\$1,048,585	\$ 949,070	\$ 922,488
Constant Dollar Data--Historical Costs Adjusted to Average 1980 Dollars					
Average Consumer Price Index	246.8	217.4	195.4	181.5	170.5
Interest Income	\$ 99,075	\$ 112,619	\$ 107,090	\$ 94,720	\$ 93,714
Interest Expense	66,679	71,034	60,385	52,516	53,459
Net Interest Income	32,396	41,585	46,705	42,204	40,255
Provision for Loan Losses	2,446	3,168	7,342	2,520	5,072
Other Operating Expense, net	29,798	38,741	43,074	38,807	38,561
Income (Loss) before Securities Transactions	152	(324)	(3,711)	877	(3,378)
Securities gains (losses)	(50)	19	(77)	4	747
Extraordinary item	-	-	80	510	570
Net Income (Loss)	\$ 102	\$ (305)	\$ (3,708)	\$ 1,391	\$ (2,061)
Per Share--Income (loss) before securities transactions	\$.03	\$ (.07)	\$ (.83)	\$.20	\$ (1.64)
Securities gains (losses)	(.01)	-	(.01)	-	.36
Extraordinary item	-	-	.01	.11	.28
Net Income (Loss)	\$.02	\$ (.07)	\$ (.83)	\$.31	\$ (1.00)
Market Price Per Share, December 31	\$.50	\$ 1.14	\$ 2.21	\$ 1.70	\$.72
Long-Term Debt, December 31	\$ 42,534	\$ 50,541	\$ 56,389	\$ 61,802	\$ 66,950
Net Monetary Assets, December 31	\$ 15,179	\$ 16,989	\$ 19,535	\$ 25,192	\$ 25,449
Loss from Decline in Purchasing Power of Net Monetary Assets	\$ (1,912)	\$ (2,241)	\$ (1,949)	\$ (1,648)	\$ (930)
Average Total Assets	\$1,043,954	\$1,257,676	\$1,324,415	\$1,290,526	\$1,335,308

EXAMPLES Current year constant dollar data in reconciliation format

CHEMICAL NEW YORK CORPORATION

1980-1979 Earnings After Depreciation Adjustment

	1980		1979	
	Earnings* (millions)	Per Common Share	Earnings* (millions)	Per Common Share
Reported	\$175	\$11.17	\$142	\$ 9.04
In 1980 dollars, excluding depreciation			\$163	\$10.47
Adjustment of depreciation for change in consumer price index (not tax effected)	(12)	(.80)	(11)	(.76)
Earnings in 1980 dollars	<u>\$163</u>	<u>\$10.37</u>	<u>\$152</u>	<u>\$ 9.71</u>

*Income before securities gains (losses).

MERCHANTS NATIONAL CORPORATION

Statement Of Income Adjusted For Changing
Prices (Dollars in Thousands)

	1980
Net income, as reported in the consolidated statement of income	\$13,770
Increase in depreciation expense to reflect the effect of general inflation (constant dollar)(2)	897
Net income, adjusted for general inflation	<u>\$14,667</u>

(2) The adjusted depreciation expense calculation results from layering the Bank's property and equipment by year of acquisition, and converting, through the CPI, the current year depreciation expense on these items to average 1980 dollars. There were no differences between depreciation methods, estimates of useful lives and salvage values in the calculation of historical cost/constant dollar depreciation. In addition, the computation of depreciation expense excludes any adjustment for the income tax effect.

FIRST ALABAMA BANCSHARES, INC.

Statement of Income Adjusted for Changing Prices

Year Ended December 31, 1980

(dollar amounts in thousands, except per
share data)

Net income as reported in the Consolidated Financial Statements (\$4.45 per share)	\$25,325
Additional depreciation expense resulting from adjusting premises and equipment for the effects of general inflation	<u>1,744</u>
Net income as adjusted for general inflation (\$4.14 per share)	<u>\$27,069</u>

Other information:

Purchasing power loss from holding net monetary assets during the year	\$10,240
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NATIONAL COMMUNITY BANK OF NEW JERSEY

The following schedule shows income adjusted for changing prices. The data presented is based upon the historical cost/constant dollar method of accounting. Because current cost amounts do not differ materially from historical cost/constant dollar amounts, current cost data has not been included.

Income As Reported in the Income Statement	\$ 9,922,200
Adjustments to Restate Costs for the Effect of General Inflation:	
Depreciation and Amortization Expense	(701,262)
Income Adjusted for General Inflation	<u>\$ 9,220,938</u>
Income Per Common Share Adjusted for General Inflation	<u>\$ 4.00</u>
Purchasing Power Loss on Net Monetary Assets	<u>\$ 7,201,332</u>
Net Assets at Year End Adjusted For General Inflation	<u>\$97,911,073</u>

EXAMPLE Historical cost, constant dollar and current cost data in statement format

NORTHERN STATES BANCORPORATION

Schedule of Income Adjusted for Changing Prices for
the Year Ended December 31, 1980
(Amounts in Thousands, Except Share Data)

	As Reported in the Financial Statements (Historical Costs)	Adjusted for General Inflation (Average 1980 Constant Dollars)	Adjusted for Changes in Specific Prices (1980 Current Costs)
Net interest income	\$38,824	\$38,824	\$38,824
Depreciation expense(1)	2,048	2,706	2,532
Other expenses--net	<u>41,622</u>	<u>41,622</u>	<u>41,622</u>
Income (loss) before taxes	(4,846)	(5,504)	(5,330)
Provision for income taxes	<u>226</u>	<u>226</u>	<u>226</u>
Net income (loss)	<u><u>\$(5,072)</u></u>	<u><u>\$(5,730)</u></u>	<u><u>\$(5,556)</u></u>
Earnings (loss) per common share	<u><u>\$ (1.92)</u></u>	<u><u>\$ (2.15)</u></u>	<u><u>\$ (2.09)</u></u>
Net assets at year end	<u>\$49,094</u>	<u>\$61,731</u>	<u>\$60,497</u>
Purchasing power loss from holding net monetary assets during 1980		<u>\$ 2,818</u>	<u>\$ 2,818</u>
Increase in general inflation over increases in spe- cific prices			<u>\$ 480</u>

(1) The depreciation methods and lives are the same as those used in the Consolidated Financial Statements.

EXAMPLES Five-year summary disclosing inflation adjusted data only

FIRST KENTUCKY NATIONAL CORPORATION

Five-Year Comparison of Selected Supplementary Financial
Data Adjusted For Effects of Changing Prices
(In Thousands)

	Year Ended December 31,				
	1980	1979	1978	1977	1976
Amounts					
Net interest income	\$ 71,293	\$ 79,412	\$78,459	\$65,487	\$63,504
Net income	19,494	20,114	(Disclosure not required)		
Net assets at year end	171,628	173,003	(Disclosure not required)		
Purchasing power loss from holding net monetary assets during the year	(12,920)	(13,056)	(Disclosure not required)		
Per share data					
Net income	\$ 4.92	\$ 5.07	(Disclosure not required)		
Cash dividends declared	1.94	1.93	\$ 1.88	\$ 1.79	\$ 1.71
Market price at year end	<u>32.23</u>	<u>31.67</u>	<u>38.01</u>	<u>38.13</u>	<u>39.65</u>
Average Consumer Price Index	<u>246.8</u>	<u>217.4</u>	<u>195.4</u>	<u>181.5</u>	<u>170.5</u>

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CENTRAL BANCORPORATION, INC.

Adjusted for the Effects of Changing Prices*
(in Millions of Average 1980 Dollars Except Per Share Data)

	Years Ended December 31,				
	1980	1979	1978	1977	1976
Net interest income	\$ 75.7	\$ 85.5	\$ 87.1	\$ 75.2	\$ 69.9
Income before securities transactions	18.5	24.6	23.8	21.2	20.7
Net income	17.7	23.7	23.8	21.2	20.7
Net assets (at year end)	168.1	175.7	176.7	166.8	164.5
Purchasing power loss on net monetary items	10.6	12.6	8.8	8.7	2.3
Per Common Share					
Income before securities transactions	\$ 3.53	\$ 4.67	\$ 4.47	\$ 4.06	\$ 3.91
Net income	3.38	4.50	4.47	4.06	3.91
Cash dividends declared	1.91	1.97	1.81	1.66	1.60
Market price (at year end)	17.66	26.48	30.55	34.43	31.34
Average consumer price index (1967 = 100)	246.8	217.4	195.4	181.5	170.5

*The data presented is based upon a constant dollar method of accounting. As the effect of applying constant dollar accounting to depreciation and amortization of premises and equipment is immaterial, the constant dollar calculations for net interest income, income before securities transactions, net income, and all per share data assume all assets and liabilities are monetary. The excess value of constant dollar net non-monetary assets (primarily premises and equipment) over their historical net book value has been included in the determination of the constant dollar net assets at year end. All net non-monetary assets have been excluded from the calculation of purchasing power loss on net monetary items. All per common share information has been adjusted for stock dividends. Current cost information is not presented, as it would not differ materially from the constant dollar information shown.

UNITED MISSOURI BANCSHARES, INC.

Five-Year Comparison of Selected Data Adjusted to Constant Dollar

The data presented are historical figures adjusted to a constant dollar value of 1980 by use of the average Consumer Price Index (CPI) to show the general effects of inflation:

	Year Ended December 31				
	1980	1979	1978	1977	1976
INCOME (in 000's)					
Net interest income	\$ 64,590	\$ 62,263	\$ 56,855	\$ 52,083	\$ 49,392
Income before security gains (losses)	16,768	14,650	12,987	11,877	12,953
Net income	16,458	14,281	12,986	11,926	12,878
PER SHARE					
Income before security gains (losses)	\$ 3.95	\$ 3.47	\$ 3.09	\$ 2.86	\$ 2.98
Net Income	3.87	3.38	3.09	2.88	2.96
Dividends	.91	.94	.95	1.02	.85
ASSETS (in 000's)					
Net assets (year end)	\$ 130,879	\$ 122,086	\$ 115,304	\$ 106,928	\$ 97,117
Average assets	1,845,030	1,780,006	1,761,621	1,667,252	1,593,714
MISCELLANEOUS					
Purchasing power loss on net monetary items (in 000's)	\$ 7,808	\$ 6,887	\$ 3,425	\$ 2,792	\$ 6,084
Market price per share (year end)	24.00	17.84	18.85	19.45	21.10
Average consumer price index	246.8	217.4	195.4	181.5	170.5

EXAMPLES Five-year summary disclosing comparative historical cost and constant dollar data

BANKERS TRUST NEW YORK CORPORATION

Schedule 1

Five-Year Comparison of Selected Historical Cost Financial Data

(in millions of historical dollars)

	1980	Year Ended December 31,			
		1979	1978	1977	1976
Historical Cost Information					
Interest income	\$ 3,363	\$ 2,516	\$ 1,744	\$ 1,295	\$ 1,231
Net interest income	664	555	485	420	414
Fully taxable net interest income after provision for loan losses	674	558	444	371	368
Other income (1)	330	211	180	152	151
Other expenses	584	512	455	411	389
Income before securities transactions (2)	214	114	83	60	56
Net income (2)	214	114	82	60	55
Average total assets	31,355	27,439	25,536	22,958	20,640
Long-term debt at year end	298	335	339	344	274
Redeemable preferred stock at year end	150	150	150	150	75
Common stock and other stockholders' equity at year end	1,010	779	706	667	648
Net assets at year end (including redeemable preferred stock)	1,160	929	856	817	723
Per Common Share					
Income before securities transactions (2)	8.66	4.69	3.24	2.48	2.32
Net income (2)	8.65	4.65	3.20	2.46	2.27
Cash dividends declared	1.70	1.58	1.50	1.50	1.50
Market price at year end	30.88	20.00	16.63	17.38	18.82
Book value at year end	40.96	35.94	33.12	31.53	30.81
Average prime rate of Bankers Trust Company	15.2%	12.7%	9.1%	6.8%	6.8%

(continued)

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Schedule 2

Five-Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices (4)

(in millions of average 1980 dollars)

	1980	Year Ended December 31,			
		1979	1978	1977	1976
Historical Cost Information Adjusted for General Inflation					
Interest income	\$ 3,363	\$ 2,856	\$ 2,203	\$ 1,761	\$ 1,782
Net interest income	664	630	613	571	600
Fully taxable net interest income after provision for loan losses	674	633	561	504	533
Other income (1)	330	240	227	207	219
Other expenses	594	590	582	564	567
Income before securities transactions (2)	204	122	97	77	77
Net income (2)	204	121	96	77	76
Average total assets	31,536	31,311	32,395	31,337	29,976
Long-term debt at year end	285	360	412	456	388
Redeemable preferred stock at year end	143	161	182	199	106
Common stock and other stockholders' equity at year end	1,174	1,021	1,008	1,016	1,027
Net assets at year end (including redeemable preferred stock)	1,317	1,182	1,190	1,215	1,133
Gain from decline in purchasing power of net monetary liabilities held (3)	64	61	10	12	12
Per Common Share					
Income before securities transactions (2)	8.24	4.93	3.75	3.12	3.17
Net income (2)	8.23	4.89	3.70	3.10	3.10
Cash dividends declared	1.70	1.79	1.89	2.04	2.17
Market price at year end	29.49	21.47	20.23	23.05	26.65
Book value at year end	47.62	47.12	47.30	48.04	48.85
Average Consumer Price Index (1967 = 100)	246.8	217.4	195.4	181.5	170.5
Annual Inflation Rate	12.4%	13.3%	9.0%	6.8%	4.8%

(1) Includes branch disposition gain of \$54 million in 1980.

(2) Includes branch disposition gain on an after-tax basis in 1980 of \$33 million (\$1.44 per common share).

(3) Nonmonetary items are trading account securities, premises and equipment, other real estate and lease residual values.

(4) Because current cost amounts do not differ materially from constant dollar amounts, current cost data has not been included.

BANKAMERICA CORPORATION

Five-Year Comparison of Selected Supplementary Financial Data Adjusted for the Effect of Changing Prices

(In thousands, except for per share data)	Year Ended December 31,					
	1980		1979		1978	
	Reported	Restated	Reported	Restated	Reported	Restated
Net interest revenue	\$2,780,774	\$2,780,774	\$2,589,164	\$2,939,309	\$2,287,816	\$2,889,626
Net income (a)	643,443	643,443	600,203	681,371	497,920	628,898
Net assets	3,908,406	3,732,951	3,461,978	3,716,469	3,036,719	3,696,185
Net monetary assets at year end (b)	2,148,251	2,051,812	2,018,281	2,166,645	1,572,391	1,912,598
Effect of inflation on average net monetary assets for the year		(244,803)		(252,143)		(165,359)
Per share data:						
Net income	4.30	4.38	4.10	4.65	3.41	4.31
Cash dividends paid	1.41	1.41	1.265	1.44	1.02	1.29
Market price at year end	30-1/4	28-7/8	27-5/8	29-5/8	25-3/4	31-3/8
Base year adjustment (c)		100.0		113.5		126.3

(a) No adjustment in the amount of applicable income taxes as originally reported has been made in the computation of restated net income.

(b) Excludes nonmonetary assets: premises and equipment and trading account securities.

(c) Prior years are restated by their relationship to the average U.S. Consumer Price Index--All Urban Consumers (CPI-U) prevailing in 1967. The average CPI-U for the years shown is: 1980--246.8; 1979--217.4; 1978--195.4; 1977--181.5; 1976--170.5. The restatements are calculated by multiplying the reported amounts by a factor with a numerator consisting of the average CPI-U for 1980 and a denominator consisting of the average CPI-U for the appropriate year (income statement accounts) or the year end CPI-U (balance sheet accounts).

	1977		1976	
	1977		1976	
	Reported	Restated	Reported	Restated
Net interest revenue	\$1,838,868	\$2,500,428	\$1,612,613	\$2,334,269
Net income (a)	396,276	538,848	336,771	487,479
Net assets	2,691,204	3,568,991	2,421,593	3,428,853
Net monetary assets at year end (b)	1,456,432	1,931,475	1,446,987	2,048,861
Effect of inflation on average net monetary assets for the year		(130,229)		(88,865)
Per share data:				
Net income	2.72	3.70	2.41	3.49
Cash dividends paid	.87	1.18	.79	1.14
Market price at year end	22-7/8	30-3/8	30-1/4	42-7/8
Base year adjustment (c)		136.0		144.8

FIRST HAWAIIAN, INC.

Selected Financial Data (Unaudited)

	1980		1979		1978		1977		1976	
	Historical Cost (1)	Adjusted for General Inflation (2) (in thousands, except per share and market price data)	Historical Cost	Adjusted for General Inflation	Historical Cost	Adjusted for General Inflation	Historical Cost	Adjusted for General Inflation	Historical Cost	Adjusted for General Inflation
Net interest income	\$ 76,621	\$ 76,621	\$ 88,124	\$ 77,337	\$ 58,009	\$ 73,268	\$ 47,925	\$ 65,167	\$ 44,240	\$ 64,038
Other operating income	12,432	12,432	10,903	12,377	11,393	14,390	10,267	13,961	8,515	12,326
Operating expenses--										
Provision for loan losses	4,393	4,393	2,259	2,564	1,770	2,236	2,289	3,113	1,124	1,627
Depreciation and amortization	2,897	4,988	2,660	4,661	2,114	4,338	2,132	4,548	1,801	3,631
Other	59,716	59,716	52,343	59,422	46,880	59,212	40,865	55,692	37,840	54,907
Income before income taxes and securities transactions	22,047	19,956	21,765	23,067	18,638	21,872	12,886	15,775	11,990	16,199
Income taxes	5,086	5,086	6,814	6,814	5,818	5,818	1,866	1,866	1,928	1,928
Income before securities transactions										
Per share	\$ 16,961	\$ 14,870	\$ 14,951	\$ 16,253	\$ 12,820	\$ 16,054	\$ 11,020	\$ 13,909	\$ 10,062	\$ 14,271
Net income	5,556	4,900	4,933	5,360	4,222	5,288	3,622	4,527	3,300	4,688
Per share	\$ 17,039	\$ 14,948	\$ 14,910	\$ 16,207	\$ 12,843	\$ 16,083	\$ 11,180	\$ 14,127	\$ 10,162	\$ 14,416
Cash dividends	5,611	4,933	4,933	5,360	4,222	5,288	3,622	4,527	3,300	4,688
Market price at year end	7,282	7,282	6,253	7,099	5,772	7,290	5,020	6,826	4,571	6,612
Average total assets	28,000	26,740	26,000	27,910	26,250	31,930	23,220	30,880	23,000	32,570
Net assets at year end	\$1,731,000	\$1,731,000	\$1,515,000	\$1,720,000	\$1,346,000	\$1,700,000	\$1,189,000	\$1,617,000	\$1,085,000	\$1,571,000
Long-term obligations	1,655,812	1,655,812	1,696,598	1,696,598	1,447,989	1,447,989	1,267,919	1,267,919	1,184,907	1,184,907
Purchasing power loss on net monetary assets	\$ 48,138	\$ 45,977	\$ 48,032	\$ 51,563	\$ 37,866	\$ 46,059	\$ 30,940	\$ 41,058	\$ 27,442	\$ 38,876
Average consumer price index	58.541	56.922	56.018	56.018	54.068	53.722	51.728	51.882	50.486	50.032

Notes:

(1) Historical cost data is presented in the dollars in which transactions actually occurred.

(2) Data adjusted for general inflation, more commonly referred to as constant dollars data, represents dollars recorded in actual transactions at different times which have all been adjusted so as to represent the same purchasing power in average 1980 dollars.

(3) Net assets are exclusive of nonmonetary assets.

(4) Current cost amounts do not differ materially from data adjusted for general inflation, and, therefore, have not been included.

EXAMPLES Five-year summary disclosing current
cost, constant dollar and historical cost data

SOUTHERN BANCORPORATION OF ALABAMA

Five-Year Comparison of Selected Supplemental Financial Data
Adjusted for Effects of Changing Prices
In Average 1980 Dollars (except "as reported" amounts)

	Year Ended December 31				
	1980	1979	1978	1977	1976
	(In thousands, except per share amounts)				
Net interest income after provision for loan losses:					
As reported	\$ 53,834	\$ 52,535	\$56,344	\$49,506	\$42,925
Adjusted for general inflation	53,834	59,640	71,165	67,317	62,134
Net income:					
As reported	18,505	16,225			
Adjustment to restate depreciation for the effect of general inflation	1,348	1,751			
Adjusted for general inflation	17,157	14,474			
Adjustment to restate depreciation for specific price changes	1,073	823			
Adjusted for specific price changes	17,432	15,402			
Per share data:					
As reported	2.53	2.22			
Adjusted for general inflation	2.35	1.98			
Adjusted for specific price changes	2.39	2.11			
Excess of increase in general price level over specific prices of property	275	1,203			
Purchasing power loss from holding net monetary assets during the year	3,455	3,820			
Net assets at year end:					
As reported	122,037	110,963			
Adjusted for general inflation	148,491	139,473			
Adjusted for specific price changes	151,707	139,862			
Cash dividends declared per share:					
As reported	.94	.92	.84	.7575	.62
Adjusted for general inflation	.94	1.04	1.06	1.03	.90
Market price per share at year end:					
Historical amount	11.50	12.75	14.50	16.00	14.25
Adjusted for general inflation	11.50	14.47	18.31	21.75	20.63
Average consumer price index	246.8	217.4	195.4	181.5	170.5

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THIRD NATIONAL CORPORATION

Five-Year Comparison of Selected Supplementary
Financial Data Adjusted for Effects of Changing Prices
In Average 1980 Dollars (Except as reported amounts)

	For The Year Ended December 31				
	1980	1979	1978	1977	1976
	(Dollars in Thousands Except Per Share Data)				
Net interest income, after provision for loan losses:					
As reported	\$ 57,757	\$ 52,921	\$44,304	\$38,403	\$33,088
Adjusted for general inflation	57,757	60,078	55,958	52,220	47,895
Income from continuing operations:					
As reported	13,111	10,977			
Adjusted for general inflation	11,669	9,222			
Adjusted for specific price changes	11,715	9,443			
Per share data (restated):					
As reported	4.58	3.83			
Adjusted for general inflation	4.08	3.22			
Adjusted for specific price changes	4.09	3.30			
Excess of increase in specific prices of properties over increase in the general price level	1,295	3,713			
Purchasing power loss from holding net monetary assets during the year	(6,182)	(5,606)			
Net assets at year end:					
As reported	109,182	98,935			
Adjusted for general inflation	129,963	121,302			
Adjusted for specific price changes	134,856	126,171			
Cash dividends declared per common share (restated):					
As reported	1.00	.83	.83	.83	.83
Adjusted for general inflation	1.00	.94	1.05	1.13	1.20
Market price per common share at year end (restated):					
Historical amount	18.54	16.95	17.54	19.00	22.37
Adjusted for general inflation	18.54	19.24	22.15	25.84	32.38
Average consumer price index	246.8	217.4	195.4	181.5	170.5

BANCORP HAWAII, INC.

Five-Year Summary of Supplemental Financial Data (Unaudited)

Adjusted for Effects of Changing Prices in Average 1980 Dollars (except "As Reported" amounts)
Years Ended December 31

(in thousands of dollars except per share amounts)	1980	1979	1978	1977	1976
Net interest income after provision for possible losses					
As reported	\$ 87,126	\$ 77,596	\$ 63,724	\$ 50,836	\$ 45,963
Adjusted for general inflation	87,126	87,340	79,802	68,538	65,966
Income from continuing operations					
As reported	25,076	20,620	16,325	12,722	10,672
Adjusted for general inflation	23,077	18,509	13,786	10,282	8,169
Adjusted for specific price changes	21,426	16,718	12,405	9,023	7,113
Primary earnings per common share					
As reported	3.35	2.84	2.25	1.76	1.47
Adjusted for general inflation	3.08	2.54	1.90	1.42	1.13
Adjusted for specific price changes	2.85	2.30	1.71	1.25	.98
Excess of increase in specific prices of premises and equipment over increase in the general price level	4,636	112	5,595	5,833	3,829
Purchasing power loss from holding net monetary assets during the year	5,057	5,378	2,934	1,822	1,331
Net assets at year end					
As reported	141,646	108,465	93,784	83,150	75,600
Adjusted for general inflation	170,284	148,475	140,840	133,054	127,707
Adjusted for specific price changes	199,410	175,001	168,804	157,771	147,518
Per common share data					
Dividends declared					
As reported	.96	.88	.80	.80	.80
Adjusted for general inflation	.96	.98	1.00	1.07	1.15
Market price at year end					
As reported	16.38	16.50	12.38	13.13	14.00
Adjusted for general inflation	15.79	18.57	14.93	17.26	19.65
Average consumer price index	244.7%	217.4%	195.4%	181.5%	170.5%

APPENDIX I

Banks Included In The Survey

Following is a listing of the top 200 commercial banks and other banks selected for inclusion in our survey listed in deposit rank order as of December 31, 1980. An asterisk indicates banks in the top 200 whose annual reports were not available at the time of our survey and which therefore are not included in the statistical data presented elsewhere in this text.

Rank	Bank	Rank	Bank
1	Bank of America NT & SA, San Francisco	31	Philadelphia National Bank
2	Citibank, N.A., New York	32	Pittsburgh National Bank
3	Chase Manhattan Bank, N.A., New York	33	Northern Trust Company, Chicago
4	Manufacturers Hanover Trust Company, New York	34	Wachovia Bank and Trust Company, N.A., Winston-Salem
5	Morgan Guaranty Trust Company of New York	35	Rainier National Bank, Seattle
6	Chemical Bank, New York	36	BancOhio National Bank, Columbus
7	Continental Illinois National Bank and Trust Company of Chicago	37	United States National Bank of Oregon, Portland
8	Bankers Trust Company, New York	38	First Pennsylvania Bank, N.A., Philadelphia
9	First National Bank of Chicago	39	AmeriTrust Company, Cleveland
10	Security Pacific National Bank, Los Angeles	40	First Interstate Bank of Oregon, Portland
11	Wells Fargo Bank, N.A., San Francisco	41	Northwestern National Bank of Minneapolis
12	Crocker National Bank, San Francisco	42	Manufacturers National Bank of Detroit
13	Marine Midland Bank, N.A., Buffalo	43	Detroit Bank & Trust Company
14	Irving Trust Company, New York	44	Bank of Tokyo Trust Company, New York
15	First Interstate Bank of California, Los Angeles	45	Girard Bank, Philadelphia
16	Mellon Bank, N.A., Pittsburgh	46	European American Bank & Trust Company, New York
17	First National Bank of Boston	47	California First Bank, San Francisco
18	Bank of New York	48	First Interstate Bank of Arizona, Phoenix
19	Seattle-First National Bank	49	Citizens and Southern National Bank, Atlanta
20	National Bank of Detroit	50	Maryland National Bank, Baltimore
21	First National Bank in Dallas	51	United Virginia Bank, Richmond
22	Republic National Bank of Dallas	52	Bank of California, N.A., San Francisco
23	First City National Bank of Houston	53	First National Bank of Minneapolis
24	North Carolina National Bank, Charlotte	54	Lincoln First Bank, N.A., Rochester
25	Union Bank, Los Angeles	55	Riggs National Bank of Washington, D.C.
26	Texas Commerce Bank National Association, Houston	56	Industrial National Bank, Providence
27	Valley National Bank of Arizona, Phoenix	57	Fidelity Bank, Philadelphia
28	Harris Trust and Savings Bank, Chicago	58	Southeast First National Bank of Miami
29	Republic National Bank of New York	59	National City Bank, Cleveland
30	National Bank of North America, New York	60	Lloyds Bank California, Los Angeles

Rank	Bank	Rank	Bank
61	Connecticut Bank and Trust Company, Hartford	95	Continental Bank, Norristown
62	First Union National Bank, Charlotte	96	Bank of the Southwest National Association, Houston
63	Citibank (New York State), N.A., Buffalo	97	Merchants National Bank & Trust Company of Indianapolis
64	First Wisconsin National Bank of Milwaukee	98	First National State Bank of New Jersey, Newark
65	Hartford National Bank and Trust Company	99	Idaho First National Bank, Boise
66	Virginia National Bank, Norfolk	100	First National Bank and Trust Company, Oklahoma City
67	American Security Bank, N.A., Washington, D.C.	101	First National Bank of Louisville
68	Mercantile National Bank at Dallas	102	First Interstate Bank of Nevada, Reno
69	Huntington National Bank, Columbus	103	First Hawaiian Bank, Honolulu
70	First National Bank of Atlanta	104	Northwestern Bank, North Wilkesboro
71	Equibank, Pittsburgh	105	First Interstate Bank of Washington, Seattle
72	Mercantile Trust Company N.A., St. Louis	106	Hamilton Bank, Lancaster
73	Banco Popular de Puerto Rico, San Juan	107	First Security Bank of Utah, N.A., Salt Lake City
74	Provident National Bank, Philadelphia	108	Citizens Fidelity Bank & Trust Company, Louisville
75	Bank of Hawaii, Honolulu	109	Whitney National Bank of New Orleans
76	Central National Bank, Cleveland	110	Michigan National Bank of Detroit
77	First National Bank in St. Louis	111	First Tennessee Bank N.A., Memphis
78	American National Bank and Trust Company of Chicago	112	Society National Bank, Cleveland
79	New England Merchants National Bank, Boston	113	Manufacturers and Traders Trust Company, Buffalo
80	First Bank Saint Paul	114*	United Bank of Denver, N.A.
81	First & Merchants National Bank, Richmond	115	First National Bank of Birmingham
82	American Fletcher National Bank, Indianapolis	116	First National Bank of Denver
83	Arizona Bank, Phoenix	117	Midlantic National Bank, Newark
84*	Bank Leumi Trust Company of New York	118	United Jersey Bank, Hackensack
85	Sumitomo Bank of California, San Francisco	119	Industrial Valley Bank and Trust Company, Philadelphia
86	Bank of Virginia Company, Richmond	120	Michigan National Bank, Lansing
87	Indiana National Bank, Indianapolis	121	Fort Worth National Bank
88	First National Bank of Maryland, Baltimore	122	Old Stone Bank, Providence
89	State Street Bank and Trust Company, Boston	123	Trust Company Bank, Atlanta
90	Shawmut Bank of Boston, N.A.	124	Liberty National Bank and Trust Company of Oklahoma City
91	American Bank and Trust Co. of Pa., Reading	125	City National Bank, Beverly Hills
92	Equitable Trust Company, Baltimore	126	Peoples National Bank of Washington, Seattle
93	United States Trust Company of New York	127	Rhode Island Hospital Trust National Bank, Providence
94	J. Henry Schroder Bank & Trust Company, New York	128	Suburban Trust Company, Hyattsville
		129	South Carolina National Bank, Charleston
		130	Zions First National Bank, Salt Lake City
		131	First American Bank of Nashville, N.A.

Rank	Bank	Rank	Bank
132	Deposit Guaranty National Bank, Jackson	169	National Community Bank of New Jersey, Maywood
133	First-Citizens Bank & Trust Company, Raleigh	170	LaSalle National Bank, Chicago
134	Old Kent Bank and Trust Company, Grand Rapids	171	Imperial Bank, Los Angeles
135	Third National Bank in Nashville	172	Citizens Commercial & Savings Bank, Flint
136	First Security Bank of Idaho, N.A., Boise	173	Long Island Trust Company, Garden City
137	Allied Bank of Texas, Houston	174	Citizens and Southern National Bank of South Carolina, Charleston
138*	Banco de Ponce, Ponce	175	Union Planters National Bank of Memphis
139	First National Bank of Fort Worth	176	Winters National Bank and Trust Co., Dayton
140	First National Bank of Jackson	177	Bank of the Commonwealth, Detroit
141	Union National Bank of Pittsburgh	178	Hibernia National Bank, New Orleans
142	Commerce Union Bank, Nashville	179	Commerce Bank of Kansas City, N.A.
143	First National Bank of Midland	180	Fifth Third Bank, Cincinnati
144	Old National Bank of Washington, Spokane	181	Birmingham Trust National Bank
145	Union Trust Company, New Haven	182	Bankers Trust of South Carolina, Columbia
146	First National Exchange Bank of Virginia, Roanoke	183	UBAF Arab American Bank, New York
147	Key Bank N.A., Albany	184	First National Bank of Allentown
148	First National Bank of Cincinnati	185	City National Bank of Detroit
149	Wilmington Trust Company	186	Manufacturers Bank, Los Angeles
150	Union Commerce Bank, Cleveland	187	New Jersey Bank, N.A., West Paterson
151	BayBank Middlesex, Burlington	188	First National Bank of Akron
152	Colonial Bank, Waterbury	189	First American Bank of Virginia, McLean
153	Bank One of Columbus, N.A.	190	National State Bank, Elizabeth
154	Houston National Bank	191	M&I Marshall & Ilsley Bank, Milwaukee
155	Union Trust Company of Maryland, Baltimore	192	Albuquerque National Bank
156	New Jersey National Bank, Trenton	193	United Missouri Bank of Kansas City, N.A.
157	Frost National Bank, San Antonio	194	First National Bank of New Jersey, Totowa
158*	Fuji Bank and Trust Company, New York	195	Heritage Bank N.A., Cherry Hill
159*	Industrial Bank of Japan Trust Company, New York	196	Garden State National Bank, Paramus
160*	Barclays Bank of New York	197	State Bank of Albany
161	Bank of Oklahoma, N.A., Tulsa	198	Iowa-Des Moines National Bank
162	Central Trust Company, N.A., Cincinnati	199	Northeastern Bank of Pennsylvania, Scranton
163	First Peoples Bank of New Jersey, Haddon Township	200	First International Bank in Houston, N.A.
164	Fidelity Union Trust Company, Newark	201	Bank Of The South, N.A., Atlanta
165	Sun Bank, N.A., Orlando	202	Central Bank of Denver
166	First National Bank and Trust Company of Tulsa	203	Colorado National Bank of Denver
167	Commonwealth National Bank, Harrisburg	204	Valley Bank of Nevada, Las Vegas
168	First National Bank of Commerce, New Orleans	205	Liberty National Bank and Trust Company of Louisville

Rank	Bank	Rank	Bank
206	First Jersey National Bank, Jersey City	286	United American Bank, Knoxville
207	National Bank of Commerce of San Antonio	287	Merchants National Bank of Allentown
208	Central Bank, Oakland	291	Mercantile-Safe Deposit and Trust Company, Baltimore
209	First National Bank of Kansas City	294	Gulfstream Bank, N.A., Boca Raton
211	First National Bank of South Carolina, Columbia	296	El Paso National Bank
213	Oregon Bank, Portland	300	First National Bank and Trust Company of Michigan, Kalamazoo
214	Austin National Bank	303	Barnett Bank of Jacksonville, N.A.
215	Oneida National Bank and Trust Company of Central New York, Utica	305	Central National Bank in Chicago
217	National Bank of Washington, D.C.	314	First Alabama Bank of Montgomery, N.A.
218	Toledo Trust Company	323	Merchants National Bank of Mobile
219	Connecticut National Bank, Bridgeport	329	Worthen Bank & Trust Company, N.A., Little Rock
220	Central Penn National Bank, Philadelphia	335	Florida National Bank of Jacksonville
221	Central Bank of Alabama, N.A., Birmingham	344	State National Bank of El Paso
222	State National Bank of Connecticut, Stamford	351	Community National Bank of Pontiac
224	Fourth National Bank and Trust Company, Wichita	361	Second National Bank of Saginaw
226	Boatmen's National Bank of St. Louis	364	Farmers Bank of the State of Delaware, Wilmington
229	United Bank of Arizona, Phoenix	368	Century National Bank of Broward, Fort Lauderdale
231	First National Bank of Florida, Tampa	377	Exchange Bank and Trust Company of Florida, Tampa
233	Bank of Delaware, Wilmington	383	Fannin Bank Houston
236	Commercial National Bank in Shreveport	388	Pan American Bank, N.A., Miami
240	Security Bank and Trust Company, Southgate	409	Merchants National Bank of Cedar Rapids
242	Louisiana National Bank, Baton Rouge	411	Atlantic National Bank of Jacksonville
243	First Virginia Bank, Falls Church	427	South Shore Bank, Quincy
244	Worcester County National Bank, Worcester	485	Howard Bank, Burlington
246	Security Trust Company of Rochester		
249	Flagship National Bank of Miami		
255	Marine National Exchange Bank of Milwaukee		
256	Southeast National Bank of Pennsylvania, Malvern		
259	Central Fidelity Bank, N.A., Lynchburg		
263	Lincoln National Bank and Trust Company, Fort Wayne		
264	American National Bank and Trust Company, Chattanooga		
266	National Bank of Alaska, Anchorage		
270	Citytrust, Bridgeport		
272	First Valley Bank, Bethlehem		
273	Landmark First National Bank of Fort Lauderdale		
278	American National Bank & Trust of New Jersey, Morristown		

APPENDIX II

Surveyed Companies

Following is an alphabetical listing of the commercial banks (or holding companies with commercial banks selected for the survey) whose 1980 annual reports to shareholders were included in this survey. Pages upon which excerpts from the company's annual reports may be found are indicated following the name.

Alabama Bancorporation	
Allied Bancshares, Inc.	6, 45
American Bank and Trust Co. of Pa.	
American Fletcher Corporation	
American National Bank and Trust Company of Chicago	56
American Security Corporation	6
Ameritrust Corporation	11, 62
Ancorp Bancshares, Inc.	
Arizona Bank	
Atlantic Bancorporation	
Austin Bancshares Corporation	
BanCal Tri-State Corporation	31
BancOhio Corporation	16, 66
BancOklahoma Corp.	
Banc One Corporation	
Banco Popular de Puerto Rico	
Bancorp Hawaii, Inc.	115
Bank of Delaware	
Bank of New York Company, Inc.	35, 56, 66
Bank of the Commonwealth	105
Bank of Tokyo Trust Company	
Bank of Virginia Company	19
BankAmerica Corporation	30, 69, 75, 111
Bankers Trust New York Corporation	109
Bankers Trust of South Carolina	
Banks of Iowa, Inc.	
Barnett Banks of Florida, Inc.	98
BayBanks, Inc.	102
Boatmen's Bancshares, Inc.	
California First Bank	61
CBT Corporation	20
C.C.B., Inc.	
Central Bancorporation, Inc.	108
Central Bancshares of the South, Inc.	
Central Banking System, Inc.	
Central Fidelity Banks, Inc.	
Central National Chicago Corporation	32
Central Penn National Corp.	8
Centran Corporation	24
Century Banks, Inc.	
Chase Manhattan Corporation	15
Chemical New York Corporation	106
Citicorp	
Citizens and Southern Corporation	
Citizens and Southern Georgia Corporation	14, 61
Citizens Commercial & Savings Bank	
Citizens Fidelity Corporation	7
City National Corporation	
Citytrust Bancorp, Inc.	
Colonial Bancorp, Inc.	
Colorado National Bankshares, Inc.	
Commerce Bancshares, Inc.	
Commercial National Bank in Shreveport	
Commonwealth National Bank	
Community National Bank of Pontiac	
Connecticut National Bank	
Continental Bank	67
Continental Illinois Corporation	6
Crocker National Corporation	
Cullen/Frost Bankers, Inc.	
Deposit Guaranty Corp.	7
DETROITBANK Corporation	62
Dominion Bankshares Corporation	66
El Paso National Corporation	32
Equimark Corporation	
Equitable Bancorporation	33
European American Bancorp	62
Exchange Bancorporation, Inc.	
Fannin Bancshares, Inc.	
Farmers Bank of the State of Delaware	15, 33, 64
Fidelcor, Inc.	32, 62
Fidelity Union Bancorporation	

- Fifth Third Bancorp
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 First American Corporation
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 First & Merchants Corporation
 First Arkansas Bankstock Corporation
 First Atlanta Corporation
 First Bank System, Inc. 70
 First Bankshares Corp. of S.C.
 First Capital Corporation 7
 First Chicago Corporation 64
 First-Citizens Bank & Trust Company
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 First Commerce Corporation 19
 First Empire State Corporation 69
 First Florida Banks Inc. 32
 First Hawaiian, Inc. 112
 First International Bancshares, Inc.
 First Interstate Bancorp 20
 First Interstate Bank of California
 First Interstate Bank of Washington
 First Jersey National Corporation
 First Kentucky National Corporation 107
 First Maryland Bancorp 21
 First National Bancorporation, Inc. 31, 70
 First National Bank of Akron
 First National Bank of Allentown
 First National Bank of Fort Worth
 First National Bank of Midland
 First National Bank of New Jersey
 First National Boston Corporation
 First National Charter Corporation
 First National Cincinnati Corporation
 First National State Bancorporation
 First New Mexico Bankshare Corporation
 First Oklahoma Bancorporation, Inc.
 First Pennsylvania Corporation 22
 First Peoples Bank of New Jersey 44
 First Security Corporation
 First Tennessee National Corporation
 First Tulsa Bancorporation, Inc.
 First Union Bancorporation 32
 First Union Corporation 33
 First United Bancorporation, Inc.
 First Valley Corporation 65
 First Virginia Banks, Inc. 48
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 Fourth Financial Corporation 45, 71
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 Hibernia Corporation 87
 Horizon Bancorp 66
 Hospital Trust Corporation
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 Huntington Bancshares Incorporated 19, 59
 Idaho First National Bank
 Imperial Bancorp
 Indiana National Corporation 49
 Industrial National Corporation 104
 Industrial Valley Bank and Trust Company 6
 Irving Bank Corporation 51, 57
 Key Banks Inc. 50, 69
 Landmark Banking Corporation of Florida 34
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 Lincoln Financial Corporation
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 Peoples National Bank of Washington
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 Republic New York Corporation
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 Riggs National Bank of Washington, D.C.
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 Society Corporation
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Ernst & Whinney
1981 Financial Reporting Trends
Motor Carriers

A survey of motor carrier industry operating results and financial reporting practices as disclosed in 1980 published annual reports.



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Foreword

This year's edition provides a source of information on current motor carrier financial data and financial reporting practices as disclosed in published 1980 annual reports to shareholders and in Form 10-Ks filed with the Securities and Exchange Commission. The survey is descriptive, not analytical; no recommendations are made with respect to the form and content of annual reports.

This publication describes reporting practices unique to the motor carrier industry as well as other reporting practices that affect the financial statements of motor carriers.

The list of companies included in the survey (page 118) includes a cross-reference showing the pages that contain excerpts from each company's annual stockholder report or Form 10-K.

Ernst & Whinney Transportation Committee, 1981.

SECTION A

General

Introduction

Survey Methods 1980 published annual shareholder reports were requested from publicly-held motor carriers and holding companies with significant motor carrier subsidiaries. The information contained herein was summarized from the 40 reports received. The companies' names are shown on page 118.

Certain tables for operating data have been segregated into separate tabulations for companies with and without significant noncarrier operations. Data relating to motor carrier revenues was available either in the financial statements, business segment footnote, or supplementary financial data. For companies with significant noncarrier operations, identifiable motor carrier assets were obtained from the business segment footnote, where available. While several conglomerates disclosed the contribution made to income by motor carrier operations either before administrative charges or before income taxes, the contribution to net income was generally not disclosed.

Financial reporting by motor carriers, including those with significant non-carrier operations, generally indicates the reports are prepared on a consolidated basis.

Surveyed Companies Table 1 summarizes selected financial data for fiscal year 1980. The data was accumulated from the separate financial statements of the companies included in the survey. Table 2 indicates where the shares of the 40 surveyed companies are traded.

TABLE 1. FINANCIAL DATA FOR SURVEYED COMPANIES (in thousands of dollars)

	Primary Carrier Companies	Companies With Significant Noncarrier Operations	Total Surveyed Companies
Current assets	\$ 972,001	\$ 3,273,166	\$ 4,245,167
Total assets	2,526,415	9,999,495	12,525,910
Current liabilities	704,994	2,664,758	3,369,752
Long-term debt	459,920	3,103,723	3,563,643
Shareholders' equity	1,023,283	3,222,531	4,245,814
Revenues	4,897,990	5,749,218*	10,647,208
Net income (loss)	(50,784)	539,964	489,180

* Includes only carrier operating revenues.

2 General

TABLE 2. WHERE SHARES ARE TRADED

Number of companies included in survey whose shares are traded* on:

Over-the-Counter	21
New York Stock Exchange	14
Pacific Stock Exchange	8
American Stock Exchange	6
Midwest Stock Exchange	3
Other	1

* Certain companies are traded on more than one exchange.

Limitations of Survey Data Financial reporting practices of motor carrier companies and holding companies with motor carrier operations are diverse and do not readily lend themselves to precise classification. As a result, assumptions, conventions, and interpretations were necessary to reduce the data to meaningful summaries.

While the data and examples contained in the survey have been checked, no responsibility is assumed or implied for the reliability of such information.

The statistics shown in the tables and the examples of report presentation are not presented as recommended accounting or disclosure practices; they are presented as a matter of information or illustration only.

Examples from company annual reports included in this survey were chosen to illustrate specific accounting or disclosure practices. Such examples have been taken out of context and may have been edited to eliminate material not specifically related to the accounting or disclosure practice being illustrated.

Accounting practices

Although the Motor Carrier Act of 1980 (the "Act") modified the form of regulation, the motor carrier industry continues to be regulated by the Interstate Commerce Commission (ICC or the Commission), and accordingly, the industry's accounting practices and reporting trends reflect such regulatory influence. During recent years, the ICC has adopted various accounting regulations and amended others, thereby substantially reducing the difference between generally accepted accounting principles and ICC accounting practices. See Section C ("Current ICC Developments") for a discussion of changes occurring during the past year and their impact on accounting and reporting practices.

General report characteristics

Size of Report and Space Devoted to Basic Financial Statements Table 3 indicates the size of 1980 annual reports and the number of pages devoted to financial statements. Ninety-three percent of the reports contained fifteen pages or more. The surveyed companies devoted more than 39 percent of their total report pages to financial statements.

TABLE 3. SIZE OF REPORTS AND SPACE DEVOTED TO BASIC FINANCIAL STATEMENTS

	No. of Surveyed Companies		No. of Surveyed Companies
Total pages in annual report:		Financial statement pages in annual report:	
8 to 14 pages	3	6 to 8 pages	11
15 to 19 pages	8	9 to 11 pages	19
20 to 24 pages	6	12 to 14 pages	5
25 to 29 pages	11	15 to 17 pages	4
30 to 34 pages	6	Over 17	<u>1</u>
Over 34	<u>6</u>		<u>40</u>
	<u>40</u>		

Notes to Financial Statements An integral part of the financial statements is the notes. These contain detailed disclosures of certain financial information not readily discernible from the balance sheet, income statement, or statement of changes in financial position. Table 4 indicates the type of information included in the notes to financial statements.

TABLE 4. NOTES TO FINANCIAL STATEMENTS

Types of Information	No. of Surveyed Companies	Types of Information	No. of Surveyed Companies
Accounting policies*	40	Accounting for inflation	12
Notes payable and long-term debt	39	Accruals and other liabilities	9
Income taxes	39	Profit sharing plans	9
Pension plans	37	Property, plant and equipment	5
Write-off of operating rights	34	Inventories	4
Leases	33	Change in accounting principle	4
Litigation	24	Investments	4
Stock options	23	Earnings per share	3
Commitments and contingencies	18	Notes and accounts receivable	2
Business segment data	18	Regulatory matters	2
Shareholders' equity, including stock options	18	Self-insurance accruals	1
Commitments, including leases	17	Related party transactions	1
Quarterly data	17	Replacement cost	1
Acquisitions	12	Intangibles	1
		Transactions with affiliates	1
		Compensating balance arrangements	1
		Subsequent events	1

* See Section H for a discussion of accounting policies for surveyed companies.

4 General

Dissemination of annual reports on Form 10-K

The Securities and Exchange Commission's (SEC) rules require that management's proxy statement or annual report to shareholders contain an offer to provide without charge to shareholders a copy of the issuer's annual report on Form 10-K.

Approximately 68 percent of the surveyed companies included an offer in the annual shareholder report to send the reader a Form 10-K. Seven percent of the companies included Form 10-K in their annual shareholder report. It is assumed that the remainder of the surveyed companies included such a notice in their proxy statement or were otherwise exempt.

EXAMPLES Offer to supply Form 10-K

OVERNITE TRANSPORTATION COMPANY (Last Page of Report)

Reports

The Annual Report is only one of the sources of information available to Overnite stockholders and the general public. Stockholders regularly receive Quarterly Reports in April, July, October and January, which contain the financial results and other news about the Company.

The Notice of Annual Meeting and Proxy Statement is mailed to each stockholder in March. This notice describes the items of business to be voted on at the Annual Meeting and also provides a list of the nominees for Directors, their Overnite shareholdings and their principal affiliations with other companies.

The Form 10-K Annual Report to the Securities and Exchange Commission provides further details on Overnite's business, not contained in the Annual Report. Form 10-K will be available in April to stockholders without charge and may be obtained by written request addressed to the Company's General Office. The Company also files Form 10-Q Quarterly Reports with the Securities and Exchange Commission which are available in May, August and November.

Annual Report to the Interstate Commerce Commission (Form M) is filed in March and will be available upon written request addressed to the Company in April. Quarterly Reports are also filed with the Interstate Commerce Commission.

CONSOLIDATED FREIGHTWAYS, INC. (Inside Back Cover)

Availability of Form 10-K

The company's annual 10-K report filed with the Securities and Exchange Commission will be available to interested shareholders after April 15. A copy may be obtained by writing the Corporate Secretary.

ARKANSAS BEST CORPORATION (Second Page of Report)

Form 10-K Availability

A copy of the Form 10-K Annual Report, as filed with the Securities and Exchange Commission for the year ended December 31, 1980, will be available after April 15, 1981, at no charge to any stockholder who directs his request in writing to: Jerry L. Walker, Director, Investor Relations, Arkansas Best Corporation, Post Office Box 48, Fort Smith, Arkansas 72902.

Surveyed company year ends

The ICC requires reports submitted to them to be based on a year ending on December 31 or on four 13-week periods ending on one of the last seven days of the calendar year. Therefore, the accounting records must be maintained to provide for calendar year-end reporting to the ICC; however, motor carriers may report to shareholders based upon a more appropriate fiscal year end. Table 5 indicates the fiscal year ends used by the surveyed companies in reporting to shareholders.

TABLE 5. SURVEYED COMPANY YEAR ENDS

<u>Year Ending</u>	<u>No. of Surveyed Companies</u>
December 31	31
52 or 53 weeks ending in late December	5
June 30	2
September 30	<u>2</u>
	<u>40</u>

SECTION B

Motor Carrier Operating Results

The following tables summarize operating results of the surveyed companies.

Revenue from motor carrier operations

	Rank		Revenues (000 omitted)		Percentage Change
	1980	1979*	1980	1979	
Roadway Express, Inc.	1	1	\$1,154,862	\$1,093,662	5.6%
IU International Corporation	2	2	989,075	942,961	4.9
Consolidated Freightways, Inc.	3	3	982,982	890,145	10.4
Yellow Freight System, Inc.	4	4	776,461	862,876	(10.0)
PepsiCo, Inc.	5	6	673,900	575,400	17.1
Leaseway Transportation Corp.	6	5	599,161	627,155	(4.5)
McLean Trucking Company	7	7	598,352	483,751	23.7
TeleCom Corporation	8	8	437,800	452,151(A)	(3.2)
Allied Van Lines, Inc.	9	9	428,085	371,205	15.3
Interstate Motor Freight System	10	10	305,497	306,298	(0.3)
Arkansas Best Corporation	11	14	267,652	232,692	15.0
The Bekins Company	12	13	250,320	234,080	6.9
Overnite Transportation Company	13	15	242,577	230,062	5.4
Carolina Freight Carriers Corporation	14	16	240,709	215,743	11.6
Transcon Lines	15	12	229,491	237,408	(3.3)
Ryder System, Inc.	16	11	228,292	260,668	(12.4)
RLC Corp.	17	17	203,725	196,830	3.5
Chemical Leaman Corporation	18	18	174,477	173,974	0.3
Preston Trucking Company, Inc.	19	21	173,699	160,361	8.3
Mayflower Corporation	20	19	172,940	171,224	1.0
Atlas Van Lines, Inc.	21	22	159,338	131,997	20.7
T.I.M.E.-DC, Inc.	22	20	156,210	169,736	(8.0)
U.S. Truck Lines, Inc. of Delaware	23	23	144,808	130,695	10.8
Refrigerated Transport Co., Inc.	24	24	124,598	110,009	13.3
Tri-State Motor Transit Co.	25	25	118,851	107,226	10.8
Banner Industries, Inc.	26	26	91,688	97,145	(5.6)
Coastal Industries, Inc.	27	27	90,433	92,660	(2.4)
Murphy Motor Freight Lines, Inc.	28	28	80,661	77,511	4.1
Midwestern Distribution, Inc.	29	29	75,991	68,238	11.4
Briggs Transportation Co.	30	31	61,862	64,872	(4.6)
Eazor Express, Inc.	31	32	59,728	61,182	(2.4)
Cooper-Jarrett, Inc.	32	30	58,830	66,333	(11.3)
Lynden Transport, Inc.	33	35	57,112	39,925	43.0
New Penn Motor Express, Inc.	34	36	42,879	37,274	15.0
Mid-American Lines, Inc.	35	34	38,445	43,543	(11.7)

	Rank		Revenues (000 omitted)		Percentage Change
	1980	1979*	1980	1979	
Penn Yan Express, Inc.	36	37	27,361	23,238	17.7
Rocor International	37	33	26,309	45,184	(41.8)
Flexi-Van Corporation	38	39	23,415	18,975	23.4
Kenan Transport Co.	39	38	22,545	20,906	7.8
Buckhorn Inc.	40	40	16,693	13,522	23.5

(A) Restated from prior year due to 1980 merger with Spector Industries, Inc. and Red Ball Motor Freight, Inc.

* The 1979 company ranking has been revised to reflect additions and deletions to the 1980 survey.

Total assets identifiable with motor carrier operations

	Rank		Amounts (000 omitted)		Percentage Change
	1980	1979*	1980	1979	
Roadway Express, Inc.	1	1	\$586,031	\$514,699	13.9%
Consolidated Freightways, Inc.	2	3	465,807	463,301	0.5
Yellow Freight System, Inc.	3	2	448,554	489,140	(8.3)
IU International Corporation	4	4	368,777	361,363	2.1
PepsiCo, Inc.	5	5	292,300	292,400	-
Leaseway Transportation Corp.	6	6	257,200	288,500	(10.8)
McLean Trucking Company	7	7	252,648	251,129	0.6
TeleCom Corporation	8	8	204,676	220,172(A)	(7.0)
Interstate Motor Freight System	9	9	137,073	146,121	(6.2)
Overnite Transportation Company	10	11	132,682	131,308	1.0
Arkansas Best Corporation	11	10	117,094	136,189	(14.0)
Chemical Leaman Corporation	12	13	114,053	115,804	(1.5)
RLC Corp.	13	12	113,924	123,920	(8.1)
Ryder System, Inc.	14	15	113,031	111,782	1.1
Transcon Lines	15	14	93,268	111,854	(16.6)
Carolina Freight Carriers Corporation	16	20	92,674	88,130	5.2
Preston Trucking Company, Inc.	17	19	91,105	88,296	3.2
U.S. Truck Lines, Inc. of Delaware	18	18	85,944	94,095	(8.7)
The Bekins Company	19	16	84,779	96,126	(11.8)
T.I.M.E.-DC, Inc.	20	17	78,902	95,336	(17.2)
Atlas Van Lines, Inc.	21	21	50,182	51,273	(2.1)
Mayflower Corporation	22	24	44,297	46,086	(3.9)
Banner Industries, Inc.	23	22	44,123	47,469	(7.0)
Tri-State Motor Transit Co.	24	23	40,643	46,204	(12.0)
Allied Van Lines, Inc.	25	26	39,450	44,320	(11.0)

(continued)

8 Motor Carrier Operating Results

	Rank		Amounts (000 omitted)		Percentage Change
	1980	1979*	1980	1979	
Refrigerated Transport Co., Inc.	26	29	38,514	34,677	11.1
Coastal Industries, Inc.	27	25	37,619	44,978	(16.4)
Murphy Motor Freight Lines, Inc.	28	28	32,263	37,200	(13.3)
New Penn Motor Express, Inc.	29	34	29,852	26,536	12.5
Midwestern Distribution, Inc.	30	32	28,221	30,413	(7.2)
Rocor International	31	27	28,015	41,804	(33.0)
Briggs Transportation Co.	32	30	25,841	32,320	(20.0)
Cooper-Jarrett, Inc.	33	31	23,472	31,082	(24.5)
Eazor Express, Inc.	34	33	21,342	26,857	(20.5)
Lynden Transport, Inc.	35	37	18,672	14,017	33.2
Penn Yan Express, Inc.	36	35	17,438	17,913	(2.7)
Kenan Transport Co.	37	36	16,233	17,294	(6.1)
Flexi-Van Corporation	38	39	10,628	9,476	12.2
Mid-American Lines, Inc.	39	38	9,999	13,640	(26.7)
Buckhorn Inc.	40	40	2,501	5,153	(51.5)

(A) Restated from prior year due to 1980 merger with Spector Industries, Inc. and Red Ball Motor Freight, Inc.

* The 1979 company ranking has been revised to reflect additions and deletions to the 1980 survey.

Income (loss) before extraordinary write-off of operating rights—companies without significant noncarrier operations

	Rank		Income (Loss) (000 omitted)		Percentage Change
	1980	1979*	1980	1979	
Roadway Express, Inc.	1	1	\$69,657	\$57,193	21.8%
Yellow Freight System, Inc.	2	2	21,049	20,735	1.5
Overnite Transportation Company	3	3	18,003	17,085	5.4
U.S. Truck Lines, Inc. of Delaware	4	4	8,537	11,207	(23.8)
Preston Trucking Company, Inc.	5	6	6,232	6,868	(9.3)
Carolina Freight Carriers Corporation	6	8	5,659	3,929	44.0
Atlas Van Lines, Inc.	7	11	3,746	2,384	57.1
New Penn Motor Express, Inc.	8	9	3,657	3,606	1.4
Chemical Leaman Corporation	9	7	3,328	4,317	(22.9)
Refrigerated Transport Co., Inc.	10	13	2,225	2,047	8.7
Coastal Industries, Inc.	11	12	2,117	2,338	(9.5)
Kenan Transport Co.	12	16	1,458	1,523	(4.3)
Tri-State Motor Transit Co.	13	10	1,405	2,980	(52.9)
Murphy Motor Freight Lines, Inc.	14	17	413	501	(17.6)
Penn Yan Express, Inc.	15	18	174	373	(53.4)

	Rank		Income (Loss) (000 omitted)		Percentage Change
	1980	1979*	1980	1979	
Midwestern Distribution, Inc.	16	14	81	2,009	(96.0)
Transcon Lines	17	15	61	1,806	(96.6)
Mid-American Lines, Inc.	18	20	(944)	(587)	(60.8)
Briggs Transportation Co.	19	22	(1,023)	(1,897)	46.1
Eazor Express, Inc.	20	21	(1,971)	(742)	**
Cooper-Jarrett, Inc.	21	23	(2,407)	(3,757)	35.9
TeleCom Corporation	22	5	(3,333)	7,558(A)	**
Interstate Motor Freight System	23	19	(6,367)	363	**

(A) Restated from prior year due to 1980 merger with Spector Industries, Inc. and Red Ball Motor Freight, Inc.

* The 1979 company ranking has been revised to reflect additions and deletions to the 1980 survey.

** Due to extreme fluctuation, no percentage change was computed.

Income (loss) before extraordinary write-off of operating rights—companies with significant noncarrier operations

	Rank		Income (Loss) (000 omitted)		Percentage Change
	1980	1979	1980	1979	
PepsiCo, Inc.	1	1	\$291,752	\$264,855	10.2%
IU International Corporation	2	2	179,336	67,020	**
Ryder System, Inc.	3	4	56,517	62,955	(10.2)
Leaseway Transportation Corp.	4	5	43,031	42,915	0.3
Consolidated Freightways, Inc.	5	3	41,898	65,885	(36.4)
RLC Corp.	6	6	22,244	27,541	(19.2)
Rocor International	7	17	7,324	(3,275)	**
Arkansas Best Corporation	8	16	6,336	(799)	**
Banner Industries, Inc.	9	9	4,227	4,987	(15.2)
The Bekins Company	10	11	4,110	2,059	99.6
Lynden Transport, Inc.	11	13	3,473	1,239	**
Flexi-Van Corporation	12	7	2,159	26,640	(91.9)
Allied Van Lines, Inc.	13	14	2,071	859	**
Mayflower Corporation	14	10	1,775	3,201	(44.5)
T.I.M.E.-DC, Inc.	15	12	(371)	1,701	**
Buckhorn Inc.	16	15	(550)	(236)	**
McLean Trucking Company	17	8	(2,432)	8,120	**

** Due to extreme fluctuation, no percentage change was computed.

10 Motor Carrier Operating Results

Primary income (loss) per share before extraordinary write-off of operating rights—companies without significant noncarrier operations

	Rank		Per Share Data		Percentage Change
	1980	1979*	1980	1979	
Overnite Transportation Company	1	1	\$5.53	\$5.31	4.1%
Roadway Express, Inc.	2	4	3.55	2.85	24.6
New Penn Motor Express, Inc.	3	2	3.44	3.42	0.6
Atlas Van Lines, Inc.	4	6	3.23	2.51	28.7
Kenan Transport Co.	5	5	2.62	2.80	(6.4)
Carolina Freight Carriers Corporation	6	12	2.57	1.81	42.0
Chemical Leaman Corporation	7	3	2.55	3.30	(22.7)
Coastal Industries, Inc.	8	11	2.07	1.98	4.5
Preston Trucking Company, Inc.	9	9	1.98	2.19	(9.6)
U.S. Truck Lines, Inc. of Delaware	10	7	1.90	2.50	(24.0)
Refrigerated Transport Co., Inc.	11	13	1.80	1.65	9.1
Yellow Freight System, Inc.	12	14	1.48	1.45	2.1
Tri-State Motor Transit Co.	13	8	.97	2.33	(58.4)
Penn Yan Express, Inc.	14	16	.41	.87	(52.9)
Murphy Motor Freight Lines, Inc.	15	18	.38	.46	(17.4)
Midwestern Distribution, Inc.	16	15	.05	1.14	(95.6)
Transcon Lines	17	17	.02	.58	(96.6)
Briggs Transportation Co.	18	22	(.78)	(1.46)	46.6
TeleCom Corporation	19	10	(.91)	2.05(A)	**
Mid-American Lines, Inc.	20	21	(1.37)	(.85)	(61.2)
Interstate Motor Freight System	21	19	(1.65)	.09	**
Eazor Express, Inc.	22	20	(1.95)	(.73)	**
Cooper-Jarrett, Inc.	23	23	(3.20)	(4.99)	35.9

(A) Restated from prior year due to 1960 merger with Spector Industries, Inc. and Red Ball Motor Freight, Inc.

* The 1979 company ranking has been revised to reflect additions and deletions to the 1980 survey.

** Due to extreme fluctuation, no percentage change was computed.

Primary income (loss) per share before extraordinary write-off of operating rights—companies with significant noncarrier operations

	Rank		Per Share Data		Percentage Change
	1980	1979	1980	1979	
Lynden Transport, Inc.	1	6	\$8.66	\$2.62	**
IU International Corporation	2	8	6.40	1.88	**
Rocor International	3	17	5.23	(1.12)	**
Leaseway Transportation Corp.	4	4	3.63	3.62	0.3%
Ryder System, Inc.	5	3	3.32	3.73	(11.0)
Consolidated Freightways, Inc.	6	1	3.20	5.06	(36.8)
PepsiCo, Inc.	6	5	3.20	2.85	12.3
RLC Corp.	8	7	1.86	2.28	(18.4)
Arkansas Best Corporation	9	15	1.71	(.21)	**
Allied Van Lines, Inc.	10	12	1.68	.70	**
Banner Industries, Inc.	11	11	1.05	1.24	(15.3)
The Bekins Company	11	13	1.05	.54	94.4
Mayflower Corporation	13	9	.87	1.57	(44.6)
Flexi-Van Corporation	14	2	(.32)	4.15	**
T.I.M.E.-DC, Inc.	15	14	(.35)	.45	**
McLean Trucking Company	16	10	(.43)	1.44	**
Buckhorn Inc.	17	16	(.61)	(.27)	**

** Due to extreme fluctuation, no percentage change was computed.

SECTION C

Current ICC Developments

New motor carrier rate bureau rules finalized

The Motor Carrier Act of 1980 established new requirements for rate bureaus and their antitrust immunity. As a result, the ICC has established new standards concerning the activities of motor carrier rate bureaus.

In order to preserve their antitrust immunity, bureaus will have to file new or amended agreements that will conform with the final standards. The ICC said that the bureau agreements must provide each carrier with the right to decide whether a released rate will be docketed. Rate bureau employees cannot initiate or decide the fate of tariff proposals. Furthermore, rate bureaus must make voting records public and must divulge the identity of proponents of tariff matters.

The ICC warned that rate bureaus will be subject to withdrawal of their immunity for serious violations of ICC standards.

ICC restates rules governing overcharge claims

The ICC has clarified several of its regulations concerning overcharge claims against carriers. The Commission has stated that:

1. A carrier must accept a claim submitted by a freight auditor on behalf of a shipper as long as the auditor is acting as an authorized agent of the shipper and has power of attorney.
2. A carrier must accept copies of original freight bills as evidence of overcharging. These copies must be accompanied by a release freeing the carrier from any future liability on a particular claim, however.

ICC establishes new minimum evidence for operating authority applications

The ICC has set new guidelines for determining whether an applicant has met the requirements for obtaining operating authority under the Motor Carrier Act of 1980. The former guidelines, the so-called Novak criteria, have become outdated as a result of the Act.

The new criteria differentiate between shipper and nonshipper support. If applicants rely on shipper statements, the evidence should deal with present or future direction, quantity, and type of traffic involved. The support must show the basic nature of the public's needs, of which the shipper statements are representative.

Nonshipper support should present evidence that a proposed operation will serve a useful public purpose. Examples of such support could include descriptions of increased efficiencies, evidence of possible fuel savings, or marketing surveys of prospective customers. However, the ICC warns that some "hard information" is required; mere assertions are insufficient.

ICC reexamines policy for TAs and ETAs

In early 1980, the ICC instituted a new policy for handling temporary authority (TA) and emergency temporary authority (ETA) applications. Six regional motor carrier boards were established to make decisions on TA and ETA applications. The boards and their decisions were to provide shippers with genuinely responsive motor carrier services. However, there have been complaints about inconsistencies in the various boards' policies, and many carriers have been using TA and ETA as a backdoor entry procedure to obtain permanent authority. As a result, the ICC has reexamined its policies regarding TAs and ETAs.

The Commission reiterated the purpose of temporary and emergency authority. The purpose of these types of authority is to provide transportation service either on an interim basis or in those situations in which no permanent authority is required.

Now under revised ICC regulations, temporary authority will be granted when the public cannot wait the required 180 days for processing permanent applications. Emergency authority will be granted when it can be shown that the public cannot wait the 35 to 40 days required to process temporary authority.

ICC adopts interim finance case rules

The ICC has adopted new rules governing applications by carriers to consolidate, purchase, merge or lease operating authorities and to acquire control over another carrier.

The new rules require the Commission to publish notice of an application in the Federal Register within 30 days of its filing. Written comments must be received within 45 days of publication. The ICC must conclude all evidentiary proceedings within 240 days of publication and must hand down a final decision within 180 days after the conclusion of the proceedings.

ICC reexamines service obligations

Following passage of the Motor Carrier Act of 1980, many individuals in the motor carrier industry began to question the meaning of the service obligation. Several decisions reached by the ICC indicate that the service obligation not only still exists but is also subject to enforcement.

In one specific instance, the ICC decided that one motor carrier had violated its service obligation. The ICC reiterated the definition of the service obligation by saying that "The obligation is conditioned upon the holder's rendering reasonably continuous and adequate service to the public pursuant to the authority therein granted." The ICC stated that the carriers to whom the obligation has been granted are required to accept and transport all freight offered to them in accordance with the provisions of their certificates. This duty is, with limited exceptions, absolute. Each carrier operating under the obligation must carry all goods offered for transportation and serve all shippers requesting such service.

The carrier in violation was found to have refused shipments below certain weights as not being profitable enough and also to have kept lists of "undesirable accounts." The ICC determined these to be clear violations of the service obligation rules, despite the carrier's claim that the discriminatory practices were caused by financial difficulties.

More recently, the ICC has proposed two alternatives designed to bring the centuries-old principles of obligation into line with the Motor Carrier Act of 1980. These proposals offer a much more liberal approach to obligation enforcement than the case detailed above.

Under the first alternative, the Commission would allow the carriers to hold out their services through informal means, such as advertising. The ICC would simply rely on traditional Commission enforcement practices to insure nondiscriminatory service to shippers.

Under the second alternative, each carrier would be required to formally announce the services it proposes to offer by filing restrictive tariffs. Also being given consideration is the declaration of markets served instead of the filing of restricted tariffs. If this approach is chosen, the ICC stated that it would investigate shipper complaints but emphasized that a simple refusal to provide service would not carry a presumption of public harm. In order for the complaint to be deemed a violation, the shipper would have to demonstrate an absence of alternative service available, an intent by the carrier to cause harm through discrimination, or some other form of unfair practice.

ICC establishes guidelines for zone of rate freedom

The Motor Carrier Act of 1980 permits motor carriers to raise or lower rates within a 10 percent zone without fear that the ICC will change the rate. As a result, the ICC has established rules requiring carriers to file rates within this zone.

In addition, carriers must certify in a transmittal letter that the rates do not exceed the maximum allowable level and that they fall within the 10 percent zone. The transmittal letter must also state that the rate was established independently by an individual carrier.

Gateway restrictions and route limitations eliminated

The ICC adopted regulations to eliminate gateway restrictions and circuitous route limitations. These rules are part of the ICC's implementation of the Motor Carrier Act of 1980. The Commission felt that these rules would increase competition and result in operating economies and fuel savings.

Gateways--common service points that have been in existence for the past 50 years--were eliminated. Since motor carriers were formerly required to operate through these gateways, they were often prohibited from using the most direct routes. Under the new rules, property carriers that can lawfully provide "through" service either by joining together separate grants of operating authority or by operating over a single regular route will be able to perform that service over any available route.

ICC to establish entertainment expenses guidelines

The ICC is currently considering a proposal that would define "legal" entertainment expenses and determine which of these expenses are to be included in calculating the cost of service or rate base.

The Motor Carrier Act of 1980 states that business entertainment expenses are legal only to the extent that such expenses are legal in businesses not subject to ICC control. However, only those expenses that 1) are sales related and 2) were lawful prior to the passage of the new act are eligible for inclusion in calculating cost of service or rate base. Therefore, if an expense is legal but does not meet the criteria of being "sales-related," it is to be accounted for as nonoperating.

The new proposal would more accurately define the term "sales-related" expenses as those expenses that promote a carrier's efficiency and competitive services. Included in this classification are outlays designed to promote new business as well as those incurred to maintain existing activity. Examples of such expenses include salespersons' salaries, travel expenses, advertising, conduct of shipper meetings, and business-oriented lunches and dinners. Non-operating entertainment expenses include recreational activities, meals or beverages with no true business purpose, and social occasions, such as holiday parties. Regarding the legality of entertainment expenses, the ICC is considering several options. Carriers could be made subject to jurisdictional laws; however, this approach would lead to different standards for different states, thus resulting in a nonuniform policy. The ICC is also considering either devising its own uniform standard or adopting IRS guidelines of legality.

The comment period for this proposed rule ended in April 1981, and the final ruling is still pending.

New ICC rules for movers and agents under Household Goods Transportation Act

Movers Rules The Household Goods Transportation Act of 1980 (the "Household Goods Act") was signed into law in October 1980. The new law required the ICC to issue a rulemaking proceeding to review and revise its regulations for movers and their agents. The purpose of the proceeding, according to the ICC, was to reduce the paperwork burden to household goods carriers, to encourage innovative rate modifications, to provide performance standards where appropriate, to eliminate regulation to the maximum extent feasible, and to provide increased consumer protection in those areas where protection is necessary.

To satisfy the objective of reducing paperwork, the ICC eliminated many of its former "paperwork" requirements. Among the items eliminated were the receipt for shipper remove information, drivers weight certificates, and for certain carriers, the filing of annual performance reports.

The Commission also intended its new rules to increase competition. Accordingly, the Household Goods Act eliminates the requirement that line-haul rates be based only on weight. Also eliminated was the prohibition against discounts and rates based on prepayment of charges.

The revised rules permit the establishment of two or more levels of rates for transportation between the same two points. It also discontinues the requirement that an agent and principal carrier maintain the same rates for the same service.

The new rules also contain provisions to allow the selling of transit cargo liability insurance to consumers (also "shippers") and the use of credit cards to allow consumers to charge the cost of the move. Under the Household Goods Act, carriers are permitted to charge the consumer for these services.

The Household Goods Act is also designed for the protection of consumers. In this area, the Commission has issued an information booklet entitled Your Rights and Responsibilities When You Move. The new rules also require that

consumers be fully informed of the carrier's claims program and that the carrier establish a specific program for handling customer inquiries and complaints.

Additionally, the Household Goods Act mandates that a written inventory be prepared on every shipment. Consumers must be advised of charges based on minimum weight or volume shipped. Furthermore, shippers must be permitted to observe every weighing and must be advised in writing of the possible cost consequences of reweighing a shipment. Carriers may set alternative dates for pickup and delivery "as long as the carrier has taken into account the needs of the shipper."

The carrier must also establish a cost-free telephone service to permit consumer communication with the carrier during a move. In addition, false or misleading advertising by carriers and agents is prohibited.

Several new performance standards were also proposed by the ICC. One such standard is for estimates of loads and requires that at least 90 percent of nonbinding estimates be for amounts not less than 90 percent of total charges. Dispatch standards require at least 95 percent of pickups and no less than 90 percent of deliveries to take place on the agreed upon dates. Ninety-five percent of all claims must be acknowledged within 30 days of receipt, while 90 percent must be paid or settled within 60 days and 95 percent within 120 days.

Agents Rules The Household Goods Act also outlined new policies for movers' agents. Although the new law increases the ICC's authority to regulate agents, Congress does not expect a new regulatory structure to be created. Congress' main concern is with the limited number of household goods agents who disproportionately account for a high percentage of complaints.

The Commission emphasizes that the new policy does not change the carrier's responsibility for the actions of its agent nor will the Commission hesitate to seek redress from a carrier for such actions.

The major thrust of the Household Goods Act is aimed at alleged violations by agents concerning weight bumping and charging for accessorial services not performed and at agents who have been consistently found to be unfit to provide proper service.

To handle consumer complaints, the Household Goods Act sets up a procedure designed to deal with such complaints in a timely and effective manner. The Commission is required to conduct a hearing no later than 60 days after service of the complaint to the agent. The agent is entitled to appear at the hearing to rebut the complaint if he so desires. If the ICC Chief Administrative Law Judge finds the agent to be in violation, an order may be issued compelling the agent's compliance. Willful failure to comply with the order after 30 days will result in a second order requiring the agent to show cause why the ICC should not limit or prohibit the agent from operating in the household goods sector. If the agent is again found to be in noncompliance, a third order will be issued. This is considered final action by the Commission, and compliance with this order must be immediate.

The ICC emphasizes that the burden of proof in such cases rests with the party filing the complaint. The party must be able to show specific violation of the Household Goods Act or to show that the agent is consistently not fit, willing and able to provide adequate service.

ICC proposes private, for-hire trip leasing

Despite heated opposition from the American Trucking Association (ATA), the ICC has proposed to allow private carriers to lease their equipment and drivers to regulated carriers ("for-hire").

The ICC believes that this proposal offers benefits to both the "private carrier" and the "for-hire carrier." In general, the ICC stated that the rule would promote energy conservation and improve operating efficiencies. Private companies are hauling their own goods in order to obtain raw materials or to deliver finished goods on a more timely basis. However, the absence of a load on the return trip often results in the waste of expensive fuel on a totally unproductive run. Trip leasing would enable the private carrier to lease its nonproductive vehicle to a for-hire carrier, thus eliminating the waste of an empty backhaul. The ICC feels that regulated carriers would also benefit from trip leasing. Current ICC regulations do not permit regulated carriers to lease nonagricultural private fleet vehicles and drivers for less than 30 days. The proposed rules would also permit regulated carriers to trip lease to other regulated carriers, thereby augmenting their equipment without capital or personnel investment, thus maintaining balanced traffic movements.

A private carrier may currently apply for common or contract operating authority ("Toto" authority). "Toto" authority permits private truck operators to obtain ICC authority to complement their preexisting private carriage routes. However, this authority was diminished when the Commission concluded that it did not have certain administrative powers to exempt the issuance of equity or debt securities of private carriers (nontransportation companies that conduct private carriage) from ICC statutory provisions and regulations. Therefore, private carriers have been reluctant to subject their securities issuances to ICC scrutiny in order to obtain "Toto" authority. The proposed rules should eliminate this concern by disposing of the need for private carrier applications for "Toto" authority. This is accomplished through private carrier trip leasing where private carrier equipment will be leased by regulated carriers to handle regulated freight, thus eliminating private carriers' backhaul problems. At the same time, private carrier leasing would grant regulated carriers the resources to expand their services to meet the shipping needs of the public.

Two of the most powerful forces in the motor carrier industry, the Teamsters and the ATA, bitterly oppose the change. The most important issue is that both forces feel the ICC lacks the legal authority to alter the distinction between regulated for-hire carriers and private carriers. Private carriers are not regulated by the ICC. The ATA fears that thousands of for-hire carriers that take advantage of private carrier trip leasing could operate free of regulation while competing with regulated carriers that do not use trip leasing. They state that any truck driver and any leasing company could become a for-hire carrier, hauling anything, anywhere.

The ATA does not agree that the new proposal will improve operating efficiencies. ATA polls indicate that the more a carrier deviates from the normal flow of its operations between authorized service points, the less control it can exercise because it knows less about the patterns of traffic. The ATA contends that as this knowledge decreases, so do the chances of securing a return load.

The ATA levels further criticism against trip leasing, stating that it would violate provisions of the Interstate Commerce Act prohibiting unauthorized disclosure of shipping information. Private carriers are generally shippers themselves. According to the ATA, a private carrier driver would have access

to the freight and shipping documents of other shippers, including actual competitors of his private carrier employer.

The ATA also opposes the ICC proposal that would permit owner-operators to lease themselves and their equipment to a private carrier. The ATA contends that this practice would result in a new entity in the transportation system. Owner-operators under lease to private carriers would not be subject to the protections offered by the Commission's leasing rules because private carriage would be exempt. Opponents of trip leasing fear that private carriers could pay depressed lease payments to the owner-operator with the promise that the trip-lease backhaul to a regulated carrier would more than compensate, especially if the private carrier holds any economic power over the regulated carrier.

Despite the ATA's opinion that owner-operators will "come out... with the short end of the stick" as compared to the private carrier, some owner-operators are in favor of the proposed changes. They believe that trip leasing will result in increased competition, greater efficiency, and lower costs.

Many feel that the ultimate outcome of the issue will depend on who President Reagan appoints as ICC Chairman. Most of the five current ICC Commissioners are said to favor the change. If trip leasing does obtain ICC approval, ATA lawyers have stated that they are prepared to "go to court."

ICC summary inspection procedures approved

The ICC has the statutory authority to inspect the records of a business involved in the transportation of agricultural commodities, the Court of Appeals ruled. Furthermore, to make the inspection, the ICC may seek an injunction to obtain the permission of a sole proprietor of a business. The Court stated, however, that certain records of the proprietor may be subject to Constitutional protection.

The sole proprietors had argued that the Commission's inspection powers applied only to those businesses that had consented to ICC regulation or that had been ruled by the courts to be subject to ICC regulation. The Court countered that regulatory agencies have the power to determine their own jurisdiction and may inspect records without probable cause; questions of jurisdiction are to be determined without litigation by the courts.

The Court further stated that protection under the Fifth Amendment would only be allowed if the sole proprietor could show that the documents might tend to incriminate him.

ICC discontinues routine field audits

The ICC has discontinued routine field audits of motor carriers. The ICC has developed a computer program to isolate unusual financial relationships. Such relationships will be investigated by phone or by audit.

ICC rules on escrow deposits

The ICC has the authority to require carriers to refund escrow deposits to owner-operators within 45 days after the termination of a leasing arrangement. The Commission can also require carriers to pay interest on escrow deposits at a rate equal to those paid on 90-day Treasury bills.

SECTION D

Other Developments and Trends

Implications of Motor Carrier Act of 1980

The Motor Carrier Act of 1980 has significantly altered the environment in which the motor carrier operates. The following chart serves as a brief summary of the changes brought about as a result of the Act.

Prior to Passage of Act	After Passage of Act
1. Entry into the industry was very restrictive, which resulted in limited competition. Operating authority, for the most part, could only be purchased from other carriers to whom the ICC had previously granted the authority.	1. Entry into the industry involves very little restriction. Operating certificates are still required, but they are not as difficult to obtain.
2. Due to collective rate making, all prices charged by carriers were the same. Therefore, competition between carriers was based mainly on service.	2. Competition is now based on service and price. Carriers can raise or lower prices up to 10 percent over or under the July 1, 1980 rates without ICC approval.
3. Very few commodities were considered exempt, that is, not subject to ICC regulation.	3. The number of exempt commodities was expanded.

Insurance minimums under the Motor Carrier Act of 1980

Section 30 of the Motor Carrier Act of 1980 sets minimum insurance coverage levels required for for-hire interstate transportation. The levels, slated to go into effect July 1, 1981, are \$750,000 for nonhazardous materials and \$5 million for materials considered to be the most hazardous. Other hazardous materials would require insurance coverage of \$1 million.

The Act gave the Bureau of Motor Carrier Safety (BMCS) the discretionary power to lower the minimums from \$750,000 to \$500,000 for nonhazardous materials and from \$5 million to \$1 million for the most hazardous materials. The discretionary power was given to BMCS to be used if the bureau determines that a serious disruption in transportation would be caused by the higher insurance levels.

BMCS has asked for and received input from various carriers as to whether a reduction for a limited period of time should be implemented. Such a reduction in minimum levels is currently under study.

Texas Use Tax challenged by carriers

More than fifty carriers across the country are challenging the Texas Sales and Use Tax, a 1941 statute which claims to have the right to tax interstate carriers hundreds of millions of dollars. The Texas law asserts that every person who buys a motor vehicle outside the state and brings it into the state

for use on public highways will be taxed 4 percent of the original purchase price. But until 1977 no interstate carrier was ever asked to pay the tax.

The law was originally designed to take away the incentive of buying a car or truck in a state where the sales tax is less than in Texas. Lawyers defending the interstate carriers claim that since carriers were never taxed during the first 35 years of the statute's existence, the statute was never intended to be applied against interstate companies. The carriers are claiming that Texas does not have the right to tax interstate carriers who are not based in the state.

In November of 1980, Texas sent out approximately 13,500 tax remittance forms requesting information on companies' operations in the state. One large carrier based in a nearby state has been assessed \$11 million in taxes, while another has been requested to pay \$12.6 million.

In response to a complaint levied against the tax by one carrier, a District Court Judge in Travis County, Texas imposed a temporary restraining order against the Texas comptroller's office, forbidding it from assessing the tax against the carrier. The order remained in effect until December 4, 1980, when the judge denied the carrier's request for a temporary injunction that would have barred Texas from collecting the tax from any interstate carrier.

The cases, still pending, are expected to be ultimately heard and decided by the Texas Supreme Court.

Reports by management

It is becoming more common for companies to include a "management report" in their annual report to shareholders. Such reports typically affirm management's responsibility for the financial statements, comment on the adequacy of the system of internal accounting controls, and discuss the roles of the board of directors, audit committee, and independent and internal auditors.

The SEC had stated for some time that it planned to require reporting on internal accounting control. Its 1979 proposal would have required management's opinion as to whether a company's system of internal accounting controls provided reasonable assurance that the broad objectives of internal accounting control included in the Foreign Corrupt Practices Act (FCPA) were achieved throughout the year. Response to the proposal was massive and overwhelmingly negative.

In withdrawing the proposal in June 1980, the SEC issued Accounting Series Release (ASR) No. 278, which explains its action and expectations regarding voluntary management reporting and auditor association. The SEC said that its preliminary analysis showed that the trend of increasing numbers of companies presenting management reports in their annual reports to shareholders had continued in 1979, and it expects management reports to become a common disclosure within three years. It also expects companies to experiment with auditor reports on internal accounting controls. The SEC intends to monitor the progress that is made voluntarily in these areas and to reconsider the need for rules based on that monitoring.

In contrast to its original proposal, the SEC now recommends that voluntary management reports cover more than internal accounting controls, such as management's responsibility for the financial statements as recommended by the Financial Executives Institute. While management reports would include an assessment of the internal control system, they would not have to discuss whether the company is in compliance with the FCPA.

EXAMPLES Reports by management

INTERSTATE MOTOR FREIGHT SYSTEM (Following Opinion of Auditors)

Report of Management

The management of Interstate Motor Freight System is responsible for the preparation of the accompanying financial statements of your Company and its subsidiaries.

The financial statements, including the notes, were prepared by your Company in conformity with generally accepted accounting principles and include, where required, amounts based on the best estimates and judgment of management. The financial statements have been examined by Ernst & Whinney, independent auditors, whose report precedes. All financial information in this annual report is consistent with that in the consolidated financial statements.

Your Company maintains internal accounting control systems that are designed to provide reasonable assurance that assets are safe-guarded, that transactions are executed in accordance with management authorizations and are properly recorded, and that accounting records are adequate for the preparation of financial statements and other financial information. The design, monitoring and revision of internal accounting control systems involve, among other things, management's judgment with respect to the relative cost and expected benefits of specific control measures.

The members of the Audit Committee of the Board of Directors, none of whom are employees of the Company, are identified on page 4 of the proxy statement. The Audit Committee, which initially met on February 22, 1981, recommended independent accountants for appointment by the Board of Directors,

reviewed the services to be performed by the independent accountants and received and reviewed reports submitted by them. In addition, the Audit Committee discussed auditing, internal accounting controls and financial reporting matters to establish an ongoing procedure for review. In the exercise of its responsibilities, the Audit Committee intends to periodically meet with management and the independent auditors.

Your Company maintains high standards when selecting, training and developing personnel to ensure that management's objectives of maintaining strong, effective internal accounting controls and unbiased, uniform reporting standards are attained. We believe our policy and procedures provide reasonable assurance that operations are conducted in conformity with the law and with our company commitment to a high standard of business conduct.

FLEXI-VAN CORPORATION (Following Opinion of Auditors)

Responsibility for Financial Statements

The Auditors' Report shown above states the auditors' opinion as to Flexi-Van Corporation's financial statements viewed in the light of conformity with generally accepted accounting principles. However, management is responsible for the fairness and integrity of the Company's financial statements and operating results. In order to meet this responsibility, management maintains formal policies and procedures that are consistent with high standards of accounting and administrative practices which are regularly communicated to all levels of the organization.

The Audit Committee of the Board of Directors meets periodically with both management and the independent auditors. To ensure complete independence, the public accountants have full and free access to meet with the Audit Committee, with or without management representatives.

Executive letters to shareholders

Despite varied styles and points of emphasis, certain topics appeared in almost all of the "Executive Letters to Shareholders" included in the annual reports. Aside from the usual discussion of company performance and goals, motor carrier executives seemed most concerned with inflation and the economy, the high cost of fuel, the write-off of operating rights, and the termination of collective ratemaking.

EXAMPLES Executive letters to shareholders

MURPHY MOTOR FREIGHT LINES, INC. (Letter to Shareholders)

To Our Shareholders:

Revenue of \$80,661,000 was recorded in 1980. This is 4.1 percent more than the \$77,511,000 reported in 1979. Net earnings in 1980, after taxes and before an extraordinary charge, were \$413,000, or 38 cents per share, compared with \$501,000, or 46 cents per share, earned in the previous year.

Our results, while far from satisfactory, are positive when viewed in the context of unprecedented events, including the failure of many motor carriers, which afflicted our industry in 1980.

It was a landmark year for the motor carrier industry, which was first regulated in the public interest by Congress in 1935. After some 10 years of considering the question of deregulation, Congress passed the Motor Carrier Act of 1980 and it became effective on July 1.

This legislation is a major change in transportation policy, and it will have a far-reaching and long-lasting impact on the industry.

The most visible and significant immediate difference has been the virtual elimination of entry control. The traditional process, however, had been eroding over the past several years by action of the Interstate Commerce Commission. The former policy of controlled entry with carrier obligation to serve has been replaced by one of freedom of entry and little, if any, obligation to serve. This is a profound change.

Collective rate making has survived to this time but is scheduled to terminate on July 1, 1984, unless the special commission established by Congress to study the question finds it in the public interest to be retained, and both Congress and the Administration support that conclusion.

The changes, vast as they are, still do not go as far as some deregulation advocates had desired.

While it is too early to tell what the net result of this legislation will be on our industry, we have acted swiftly and effectively to take advantage of the new freedom to expand operations.

By year-end 1980 we had received permanent authority to substantially enlarge the scope of our service in four Midwest and Northeast states that were already in our system, and to start operations in five Southeast states that are new to our system. We have opened 19 new terminals, increasing our total to 70 in the 19 states of our expanded system. This much-larger network offers abundant opportunity for growth.

The Motor Carrier Act not only affected the physical operations of the industry, but also, in most cases,

produced a significant adverse impact on the financial statements of carriers. The Financial Accounting Standards Board in its ruling of December 19, 1980, required a complete write-off in 1980 of the unamortized cost of intangible assets that represent money paid for operating rights. These authorities are now worthless. As a result, we made an extraordinary charge to income in 1980 of \$3.5 million, equal to \$3.27 per share, which was the unamortized value of operating rights on our books as of December 31, 1980.

Our federal tax return for 1980 will include a tax credit due us of \$1,765,000 resulting from the write-off of operating rights. We will file for an immediate refund of that amount. Legislation to specifically allow the deduction is now before Congress and will be supported by the industry through the activities of the American Trucking Associations, Inc.

Capital expenditures in 1980 totaled \$1,945,000, a reduction of 47 percent from the budgeted amount. The deferred funds are included in the 1981 capital budget of \$6,750,000, which also will be monitored carefully as the year progresses.

Service and productivity are fundamental to our success. Good progress has been made in both areas during the past 12 months, and is explained in the next section of this report. The ratio of cargo loss and damage claim expense to total revenue was the lowest in our history.

Safety, as always, is a paramount concern with our drivers and freight-handling personnel. This is exemplified by the career of veteran driver Kenneth W. Olson, who was named 1981 National Truck Driver of the Year by the ATA. Mr. Olson is the first Murphy Motor Freight Lines, Inc., driver to be accorded this signal honor, and we are extremely proud of his accomplishment.

At a special meeting of the Board of Directors in December, Richard T. Murphy was elected a director of the Company. He is President of RTM Corporation and has a long and successful career in the heavy-specialized segment of our industry. We welcome him and are pleased to have him join our organization.

L.W. Houston, Jr., 43, joined the Company as Vice President of Operations in February of 1980. He is an experienced executive with an extensive background in operations with two of the nation's leading motor carriers.

Even though 1980 witnessed much turmoil in the motor carrier industry, we are fortunate to have an organization of dedicated, experienced and capable people. This is our greatest strength. To all of them, we extend thanks. We also express our appreciation to our shareholders for their support, and especially to the members of our Board of Directors for their guidance.

We enter the new era with confidence and intend to take full advantage of the opportunities that lie ahead.

MAYFLOWER CORPORATION
(Letter to Shareholders)

To Our Shareholders:

The year 1980, the beginning of a new decade, was perhaps the most challenging in Mayflower's history. Legislation that substantially re-regulated the household goods moving industry was enacted and the Company inaugurated a planned diversification program late in the year. Each of these events is certain to significantly affect the Company's future.

The unfavorable economic conditions, which began in late 1979, continued throughout 1980 and adversely impacted the household goods moving industry more than in past recessionary periods.

Operating revenues for 1980 totaled \$271,380,098, an increase of 6.0% over the \$256,107,964 for 1979. Net income for the year was \$1,775,024 or \$.87 per share compared with \$3,200,925 or \$1.57 per share for 1979. The net increase in operating revenues is accounted for by transportation tariff rate and surcharge increases amounting to approximately 14.9% and 8.3% respectively, offset by decreases in real volume of approximately 17.2%. The higher mortgage interest rates and related slowdown in the housing markets throughout 1980 significantly reduced the demand for household goods moving services.

While operating results for 1980 were less favorable than expected, the Company's plans for diversification and the challenges related to re-regulation issues provide unique opportunities for the future.

Historically, Mayflower has enjoyed a dominant position with respect to the demand for household goods moving services from private shipper customers. The decline in revenues from this sector of the market was more severe than for the corporate account transferee although there was also a significant reduction in corporate relocations.

In spite of decreased profitability for 1980, your Company has maintained its strong financial position. Short-term bank borrowings decreased by \$10,755,000 as of December 31, 1980 compared with the same date in 1979. The reduction was primarily attributable to a lower level of receivables and a decrease in prepaid transportation services related to the International Division's reduced military business. During the year no additional borrowings were necessary to fund the Company's purchase of capital equipment, which amounted to \$5,070,000 for 1980. Equipment additions were used primarily for replacements and expansion of the Company's trailer fleet. Cash dividends paid by the Corporation in 1980 were maintained at the prior year's quarterly rate of \$.15 per share.

During 1980, two important pieces of legislation were passed by Congress; the Motor Carrier Act and the Household Goods Transportation Act. The Motor Carrier Act substantially re-regulates all interstate truck transportation and is the culmination of government efforts that were initiated in 1975 by the Ford administration. The Household Goods Transportation Act is similar in many respects to the Motor Carrier Act, but relates specifically to interstate movers.

The general thrust of the Acts is to promote additional competition in the industry. Both require the Interstate Commerce Commission to adopt much less restrictive guidelines to be used for evaluating new entrants into the industry, and both permit a great deal more rate flexibility than had been possible under prior legislation. Additionally, the two Acts will remove, after January 1, 1984, all anti-trust immunity that had been provided motor carriers through various rate bureaus. The Acts contain dozens of other less significant statutory changes that will have an impact on all motor carriers. It is generally expected that the new Acts will cause more competition to emerge in the marketplace and may create some negative downward pressure on rate levels, at least in the short run. It is Mayflower's intention to aggressively pursue, through opportunities presented by these changes, a higher degree of operational efficiency, while maintaining the quality of service at the highest possible level.

Consistent with the Company's long range diversification program, a 90 percent ownership interest was acquired in ADI Appliances, Inc. as of January 1, 1981, through the purchase for cash of assets amounting to \$9,300,000, less liabilities assumed. For its most recent fiscal year, ADI had sales of approximately \$51,000,000. It is engaged in the distribution of appliances, consumer electronics and related products in central Indiana and certain areas of Ohio, Michigan and Illinois.

In 1979, we announced that we were considering the possible entry into the real estate franchising business. Since there has been no recovery in the real estate market, and none is foreseeable in the near future, we have deferred any further development of these plans. We will continue to monitor the real estate industry for indications that could cause us to re-evaluate the real estate franchising potential in the future.

We intend to identify other possible diversification opportunities during 1981 that are consistent with our long range objectives to improve the stability and overall performance of the Corporation.

Certain senior management changes were made during 1980 and other changes were made in early 1981. At year end, Michael L. Smith was elected an Executive Vice President of the Corporation and has responsibility for the operation of the Company's non-transportation companies and for corporate planning. Gary L. Light and Richard L. Russell, Executive Vice Presidents, were elected Directors of the Corporation at the Annual Shareholders' Meeting in April, 1980.

Fred J. Grumme, Chairman of the Board, retired in February, 1981 with over 40 years of service. The Corporation acknowledges the valuable contribution and dedication of Mr. Grumme to the growth and progress of the Company.

Many of the challenges that we will face in 1981 are essentially the same as those that were encountered during the past year. It is unlikely that the severely depressed real estate market upon which we depend as a source of business for our long distance moving and warehouse divisions will improve dramatically during the first half of 1981. However, we

(continued)

24 Other Developments and Trends

will continue to pursue aggressive marketing programs designed to maintain and improve market share of all business segments. We must carefully address ourselves to the new transportation regulations as administered by the Interstate Commerce Commission and develop and implement new pricing and operational policies that will be responsive to a constantly changing and highly competitive marketplace. It is our intention to continue with programs and policies which will maintain Mayflower as the best known name in moving. At the same time, continued emphasis will be placed on the control of operational costs and the employment of capital consistent with our long range objectives.

We are grateful to the Mayflower family of shareholders, agents, truckmen and employees for their efforts and support during the past year.

TRANSCON LINES (President's Letter)

To Our Shareholders and Employees:

Revenues for the year were \$229,491,000, compared to \$237,408,000 in 1979, a decrease of about 3%. Income after taxes and before the extraordinary charge was \$61,000 or \$.02 per share compared to \$1,806,000 or \$.58 per share earned in 1979. In the fourth quarter the Company wrote off as an extraordinary charge its entire investment in operating rights of \$16,769,000, or \$5.35 per share. This resulted in a net loss of \$16,708,000 or \$5.33 per share for the year.

The results for 1980 were disappointing for Transcon Lines. The slowdown in business activity that began in 1979 continued throughout 1980. Additionally, the diversion of truckload freight to other forms of carriage was a major factor in our declining tonnages in 1980. In the midst of the problems caused by declining tonnage, a Rocky Mountain Motor Tariff Bureau rate increase, which was needed to offset the contractual Teamsters Union Wage increase effective April 1, was arbitrarily delayed for three months by the Interstate Commerce Commission (ICC). Since tariffs represented by the Rocky Mountain Bureau accounted for almost 70% of Transcon's revenue, this lack of rate relief was the primary cause for the substantial second quarter loss of \$.34 per share. As a result, the Company found it necessary to reduce the regular quarterly dividend from \$.15 per share to \$.025 per share in the second quarter. Dividends paid to shareholders during the year totalled \$.225 per share compared with the \$.60 per share paid during 1979.

In order to combat the significant operating losses and the lower business levels anticipated in the second quarter, major cost reduction measures were implemented. Substantial trimming of the work force, curtailment of capital expenditures to an absolute minimum level, and other expense reduction programs were implemented in several stages. These cost-saving measures permitted the Company to post profits in both the third and fourth quarters of the year and avoid an operating loss for the full year 1980.

During the latter half of 1980, tonnage levels continued a downward trend and for the year the Company

experienced a total tonnage decline of 18% compared to the previous year. Although the nation's recession limited the gain in the less-than-truckload (LTL) segment of our business to less than 1%, it was the loss of 30% in truckload traffic which most severely hurt the Company's profitability. The diversion of truckload shipments, primarily to non-union owner-operators, left Transcon with drastically reduced tonnage on its basic route system.

Since the 1979 Teamsters' strike, when shippers discovered that they could move their truckload freight some other way, truckload traffic has been under heavy fire. It is the most vulnerable freight to all kinds of competition, from private carriers to independent non-union owner-operators. Transcontinental traffic is the most lucrative, and, therefore, the most sought after of the truckload freight. This makes it doubly vulnerable due to the opportunities for ratesaving which exist. Each of the ICC's administrative deregulatory actions and, in fact, the rate increases and fuel surcharges which they did permit, increased competition, increased our prices and gave shippers more reasons to look for other ways to route truckload freight away from common carriers. This combination of deregulatory pressure creating new competition, expansion of existing carriers into the transcontinental market for the first time and reduced business levels, all combined to reduce truckload traffic.

Without the truckload freight, many of our terminals simply lacked the tonnage to operate productively and contribute to profits. Therefore, our most immediate concern was to reverse the declining tonnage trend and significantly add to our existing LTL base. All of the Company's efforts were directed toward dramatically increasing its share of the LTL market. Foremost consideration was given to LTL service improvement. By providing outstanding dependability and consistency of service, we believe the Company will gain the additional market penetration necessary to achieve above-average LTL growth. Additional emphasis in the sales area was in the form of specialized training programs and the establishment of a sales incentive system. We are optimistic that these ongoing programs will be successful.

The Motor Carrier Reform Act, which was signed into law by President Carter in July 1980, almost totally changed the environment in which the for-hire common carrier has historically functioned. The Interstate Commerce Commission, both before and after the enactment of the Motor Carrier Act on July 1, 1980, has been on an active program of promoting easier entry into the motor carrier industry through grants of new operating authority. As a result of this stepped-up activity, the industry, including Transcon, concluded that operating rights were no longer an asset of value. This led Transcon to write off its entire investment in unamortized operating rights as an extraordinary charge to income during the fourth quarter of approximately \$16.8 million or \$5.35 a share. This write-off does not reflect any tax benefit. However, the Company has claimed a deduction for Federal tax purposes and could have a significant tax benefit either through a refund from amended returns and loss carrybacks that have been filed or future tax relief that may be granted by Congress.

Although the short-term effect has been adverse, Transcon Lines stands to gain more in the new operating environment than almost any of the other major general commodity carriers. While Transcon's operating authority was nationwide, the operating franchise allowed service between only a limited number of terminal city pairs. Basically Transcon could compete between points on either side of the Rocky Mountains, and between the East Coast and the Midwest, Texas and Oklahoma. As a result of the elimination of most entry restrictions, Transcon is now able to provide service between virtually any two terminals in its system. For example, we are now free to serve between Charlotte and Boston, between Atlanta and Minneapolis-St. Paul, and between Southern California and the Northwest. Since passage of the Act, Transcon has increased its number of markets by approximately 25% with no attendant start-up costs other than the over-the-road expense incurred in traversing the shortest route between two existing terminal cities. The terminal facilities, experienced workers, city pick-up and delivery fleets, two-way radio systems, sales force and terminal management were all in place and functioning on each of these new market lanes. Exceptions were new terminal openings as a result of free entry in Reno and Louisville where modest start-up costs were incurred.

As a result of the Motor Carrier Reform Act, Transcon was allowed, for the first time, to compete as a contract carrier. Consequently, several contracts with major shippers have been negotiated primarily to alleviate backhaul tonnage imbalances.

Transcon has considerable transportation expertise that we intend to market in this new era of regulatory freedom. To this end, it is contemplated that a proposal to establish a holding company, Transcon, Inc., to provide a broader base of transportation related services, will be submitted to the shareholders early in 1981. Establishing this holding company will give management additional flexibility to pursue new opportunities as they arise.

In September the Company diversified its business operations by establishing a Special Commodities Division, Keystone Lines. Keystone is an owner-operator operation started with the objective of recapturing truckload traffic previously enjoyed by the General Commodities Division. The growth and success of the Keystone operation has exceeded all initial projections. It began to contribute to corporate profits in its third month of operation.

A truck rental subsidiary, TC Rentals, was established at about the same time to compete in the

short-term rental market for road tractors, trailers and straight trucks. After only several months of operation, TC Rentals began contributing to profits with agencies established in Los Angeles and in San Jose, California. The start-up costs for both of these operations have been minimal.

In addition to freer entry, the Motor Carrier Act of 1980 began the process of competitive pricing for the first time in our industry. Effective July 1, 1984, rate bureaus will no longer be able to set rates for anything but joint line traffic. All single line traffic will be individually priced after that date.

Several years ago, Transcon established a freight profitability system that is still one of the most sophisticated approaches to cost accounting in our industry. By capturing the basic freight bill cost data through the on-line billing system, Transcon is able to accurately cost out every shipment, shippers, consignee, traffic lane and even industry. This ability will be invaluable in pricing our services intelligently as the rate bureaus are phased out.

In December the Company signed an agreement to purchase a minimum of 300 1979 line-haul tractors from the successful bidder in the Wilson Freight Company bankruptcy auction. These tractors have less than one average year of mileage, and will give Transcon one of the youngest tractor fleets in the industry. In order to meet future equipment requirements, the purchase of these tractors at a cost of less than 40% of replacement value at this time is an excellent investment.

At the annual meeting of shareholders in April 1980, William M. Cockrum, III, Vice Chairman of A.G. Becker & Co., was elected to the Board of Directors. On December 31, 1980, Burke G. Piper retired as Executive Vice President, Finance of the Company, but will remain as a member of the Board of Directors.

While 1980 was a very great disappointment to Transcon, we are enthused about our long-term challenges and opportunities in our new operating environment. With a young and strong management in place; with an in-transit LTL service now consistently the best in the industry; with the new LTL markets; with the newly-created transportation-related services and the opportunity to develop others; all of us look to 1981 and beyond with a great deal of confidence and enthusiasm.

Management's discussion and analysis

As a result of the SEC's rule changes, the focus of management's discussion has been shifted from the summary of operations to the overall financial statements. Regulation S-K requires a discussion of the company's financial condition, changes in financial condition and results of operations. The purpose of the discussion is:

to provide to investors and other users information relevant to an assessment of the financial condition and results of operations of the registrant as determined by evaluating the amounts and certainty of cash flows from operations and from outside sources.

Generally, discussion is required of:

1. Specific information about the company's liquidity, capital resources and results of operations.
2. The impact of inflation and changing prices on net sales and revenues and on income from continuing operations.
3. Material changes in line items of the consolidated financial statements from prior period amounts.
4. Known material events and uncertainties which may make historical financial information not indicative of future operations or financial condition.
5. Any other information the company believes necessary to an understanding of its financial condition, changes in financial condition and results of operations.

Substantially all of the surveyed companies included in their shareholder report a Management's Discussion covering the three most recent years.

EXAMPLES Management's discussion and analysis

THE BEKINS COMPANY
(Selected Financial Data)

	Years ended December 31				
	1980	1979	1978	1977	1976
(Dollars and shares in thousands, except per share amounts)					
Revenue*					
Local moving & storage	\$120,623	\$115,102	\$109,969	\$ 92,087	\$ 78,244
Long-distance moving	122,199	117,737	108,055	90,693	79,854
Traffic management	29,098	20,145	13,570	11,440	12,832
Building services	36,093	34,470	31,503	24,689	16,570
Furniture rental	8,532	6,453	-	-	-
(Deduct) intercompany revenue	(21,600)	(18,904)	(18,806)	(19,081)	(13,933)
Total revenue	<u>\$294,945</u>	<u>\$275,003</u>	<u>\$244,291</u>	<u>\$199,828</u>	<u>\$173,567</u>
Income					
Local moving & storage	\$ 4,756	\$ 3,820	\$ 1,039	\$ 1,654	\$ 3,610
Long-distance moving	4,079	2,931	786	4,133	4,835
Traffic management	2,359	1,426	1,290	1,914	3,927
Building services	1,007	1,247	1,198	922	587
Furniture rental	964	698	-	-	-
	13,165	10,122	4,313	8,623	12,959
(Deduct) unallocated corporate expense	(4,600)	(4,412)	(3,541)	(3,232)	(3,286)
(Deduct) unallocated interest expense	(2,659)	(3,286)	(1,291)	(234)	(174)
Income (loss) from operations	5,906	2,424	(519)	5,157	9,499
Gain from sale of real estate	1,612	856	-	-	-
Income (loss) before income taxes and extraordinary item	7,518	3,280	(519)	5,157	9,499
Income taxes (credits)	3,408	1,221	(614)	2,357	4,588
Income before extraordinary item	4,110	2,059	95	2,800	4,911
Extraordinary item--write-off of operating rights	(1,504)	-	-	-	-
Net income	<u>\$ 2,606</u>	<u>\$ 2,059</u>	<u>\$ 95</u>	<u>\$ 2,800</u>	<u>\$ 4,911</u>
Weighted average number of shares outstanding and equivalents					
	<u>3,907</u>	<u>3,817</u>	<u>3,814</u>	<u>3,809</u>	<u>3,792</u>
Per share of common stock					
Income from operations	\$.77	\$.39	\$.02	\$.74	\$ 1.30
Gain from sale of real estate	.28	.15	-	-	-
Before extraordinary item	1.05	.54	.02	.74	1.30
Extraordinary item	(.38)	-	-	-	-
Net income	.67	.54	.02	.74	1.30
Cash dividends	<u>\$.12</u>	<u>\$.165</u>	<u>\$.60</u>	<u>\$.60</u>	<u>\$.525</u>
Total assets					
	<u>\$108,710</u>	<u>\$119,252</u>	<u>\$100,187</u>	<u>\$ 82,794</u>	<u>\$ 67,679</u>
Total long-term liabilities	<u>17,486</u>	<u>17,046</u>	<u>13,103</u>	<u>9,121</u>	<u>3,370</u>
Total debt and lease obligations	<u>15,671</u>	<u>31,279</u>	<u>22,531</u>	<u>12,434</u>	<u>3,103</u>
Shareholders' equity	<u>\$ 50,433</u>	<u>\$ 48,121</u>	<u>\$ 46,614</u>	<u>\$ 48,781</u>	<u>\$ 48,225</u>

*Certain amounts from prior years have been reclassified to conform with current classifications.

Management's Discussion and Analysis

Results of Operations

Local Moving & Storage

Revenue increases in 1980 and 1979 resulted primarily from higher prices in all areas and greater volumes of non-household goods moving and storage

activities, partially offset by lower volumes of household goods activities. These pricing and product mix changes, and improved margins in motor carrier operations, partially offset in 1980 by increased claims costs on insurance programs being phased out, were the main causes of the income improvement each year.

(continued)

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Long Distance Moving

Revenue increases in 1980 and 1979 resulted primarily from higher prices in household goods activities and a larger volume of non-household goods shipments, partially offset by declines in the volume of household goods shipments and fewer automotive units sold to independent drivers. The income improvement each year resulted mainly from operating efficiencies and price increases.

Traffic Management

The revenue increase in 1980 resulted primarily from a higher volume of international and domestic household goods forwarding activities for the military, and more overseas shipments for commercial customers. The 1980 increase in income was principally due to these increased shipment levels. The revenue increase in 1979 was caused mainly by more overseas shipments of military and commercial household goods. The income increase in 1979 resulted primarily from this higher volume, partially offset by lower margins on government business.

Building Services

Revenue increases in 1980 and 1979 resulted primarily from a higher volume of janitorial maintenance activities. The 1980 decrease in income was caused mainly by lower margins in pest control activities. The 1979 increase in income was due principally to higher pest control margins, partially offset by a margin decline in janitorial maintenance.

Furniture Rental

The 1980 and 1979 increases in revenue and income resulted primarily from the acquisition of these activities in March, 1979. Also contributing to the 1980 increases were higher levels of rental and sales activities.

Unallocated Expenses

The 1980 and 1979 increases in unallocated corporate expense resulted primarily from higher accrued expenses to be subsequently allocated to operating units and corporate incentive compensation costs. The 1980 decrease and the 1979 increase in unallocated interest expense were caused principally by changes in borrowing levels, and to a lesser degree by rate changes.

Gain From Sale of Real Estate

This 1980 and 1979 income represented the final and initial proceeds, respectively, from the sale of a warehouse in 1979.

Extraordinary Item

The write-off of all motor carrier interstate operating rights resulted from application of Statement No. 44 issued by the Financial Accounting Standards Board in December, 1980, which prescribed this treatment in response to 1980 legislation effectively reducing regulation in the industry. The write-off has not been reduced by any tax benefit, although the Company intends to claim a deduction for tax purposes.

Financial Condition

During 1980, an improvement in billing cycle was the principal factor which reversed a prior trend and reduced working capital requirements. The lower level of accounts receivable required less short-term borrowings, with consequent reduction in interest expense.

Net capital expenditures, excluding acquisitions, were \$4 million in 1980 compared to \$8 million in each of the prior two years, primarily due to limiting automotive purchases to mandatory replacement requirements. In 1979, the Company entered the furniture rental business through an acquisition financed by increased borrowings.

At December 31, 1980, the Company had available approximately \$32 million of its \$36-1/2 million of bank lines of credit, which expire in the spring of 1981, and anticipates negotiating new lines of credit at that time. The summer seasonality of the household goods market has historically required increased borrowing levels during that portion of the year to support seasonal working capital needs. The maximum principal outstanding at any time during 1980, 1979 and 1978 under these bank lines of credit was approximately \$17 million, \$29 million, and \$18 million, respectively.

The Company has developed a plan designed to free up a significant number of its owned real estate properties, without negatively impacting operating profits. Successful implementation of all or a part of this plan is dependent upon real estate market conditions, rearrangement of operating districts, leasing or building new space, relocating some storage business and other factors. Accordingly, there can be no assurance that any dispositions will take place.

Inflation has become a significant factor, and the Company is continually seeking ways to cope with its impact. To the extent permitted by competition and by government regulation, in general the Company passes increased costs on by increasing sales prices over time.

A very large proportion of the Company's owned real estate properties were acquired more than ten years ago. Replacement of these properties would require considerably higher costs than the original acquisition costs, with significantly higher annual depreciation charges. However, management believes that the Company's transportation business is in general characterized by slow technological change, and near-term replacement of these properties will not be required in order to remain competitive. The Company's automotive equipment has for the most part been acquired during the past ten years. This equipment must be replaced at higher cost when refurbishment is no longer economical, and this process takes place over a number of years as the Company's various product lines have differing requirements. The depreciation charges for the new assets will be higher, offset somewhat by increased fuel and other operating efficiencies.

Present tax laws do not allow deductions for adjustments for the impact of inflation. Thus, taxes are levied on the Company at rates which, in real terms, exceed established statutory rates.

The Motor Carrier Act of 1980 and The Household Goods Transportation Act of 1980 have substantially changed the regulatory environment for much of the Company's transportation business. In general there has been a lessening of governmental regulation regarding entering new geographical markets, carrying additional commodities, setting prices, and many other basic factors. The concept of these changes was to create a freer marketplace in which more com-

petitors can attempt to provide customers with the products and services they want to buy. This new environment provides both greater business opportunity and increased risk. The Company is implementing in 1981 substantial changes--which were not possible before this legislation was passed--in how it is offering its transportation services to customers.

REFRIGERATED TRANSPORT CO., INC.
(Selected Financial Data)

Dollar amounts in thousands except per share data

	1980	1979	1978	1977	1976
Operating Results:					
Revenues	\$124,598	\$110,009	\$98,717	\$86,707	\$75,765
Operating Expenses	119,729	105,110	94,953	83,377	72,757
Operating Income	4,869	4,899	3,764	3,330	3,008
Interest Expense	1,584	1,726	1,331	1,067	1,157
Earnings before income taxes and extraordinary charges	3,285	3,173	2,433	2,263	1,851
Income Taxes	1,060	1,126	619	517	496
Earnings before extraordinary charges	2,225	2,047	1,814	1,746	1,355
Extraordinary charges	(3,963)	-	-	-	-
Net earnings (loss)	<u>\$ (1,738)</u>	<u>\$ 2,047</u>	<u>\$ 1,814</u>	<u>\$ 1,746</u>	<u>\$ 1,355</u>
Earnings (loss) per common share					
Before extraordinary charges	\$ 1.80	\$ 1.65	\$ 1.47	\$ 1.42	\$ 1.10
Extraordinary charges	(3.20)	-	-	-	-
Net earnings (loss)	<u>\$ (1.40)</u>	<u>\$ 1.65</u>	<u>\$ 1.47</u>	<u>\$ 1.42</u>	<u>\$ 1.10</u>
Total assets at year-end	\$ 38,514	\$ 34,677	\$ 30,427	\$ 27,214	\$ 24,237
Long-term debt at year-end	\$ 14,363	\$ 12,945	\$ 12,227	\$ 11,572	\$ 11,260
Cash dividends declared per common share	\$.33	\$.29	\$.25	\$.06	\$ -
Working capital at year-end	\$ 5,991	\$ 5,036	\$ 4,774	\$ 3,867	\$ 2,596
Current ratio at year-end	1.53	1.60	1.67	1.62	1.50
ICC Operating ratio	96.1	95.5	96.2	96.2	96.0
Stockholders' equity at year-end	\$ 9,282	\$ 11,426	\$ 9,738	\$ 8,208	\$ 6,535
Stockholders' equity per common share at year-end	\$ 7.50	\$ 9.23	\$ 7.87	\$ 6.69	\$ 5.32
Debt to equity ratio at year-end	3.14	2.03	2.12	2.32	2.71
Capital expenditures	\$ 7,317	\$ 5,828	\$ 4,266	\$ 3,495	\$ 1,465

Management's Discussion and Analysis of Results of Operations and Financial Condition

1980 vs. 1979:

Results of Operations

Revenues for 1980 were \$124,598,000 an increase of \$14,589,000 or 13% over those of 1979. The increase included an increase of \$8,683,000 for fuel surcharge, most of which is passed to the owner-operators to compensate for the large increase in fuel cost which took place in 1980.

Earnings in 1980 before extraordinary charges were \$2,225,000 as compared to \$2,047,000 in 1979, an increase of 9%. As in the prior year, the earnings of 1980 included gains on sale of revenue equipment; such after tax gains were approximately \$493,000 as compared to \$596,000 in 1979.

The only significant variations in operating expenses between 1980 and 1979 took place in purchased transportation which increased from \$63,227,000 in 1979 to \$78,491,000 in 1980 or 6% as a percent of revenues. Most of the increase was attributable to the increase in fuel surcharge mentioned above.

All other operating expenses of 1980 were \$41,238,000 as compared to \$41,883,000 in 1979 and were reduced from 38% of operating revenues in 1979 to 33% in 1980. The improvement was mainly the result of drastic economy measures, principally in the salary and wages areas, which were taken by the Company in the spring of 1980 when it appeared that a major slow down in the motor carrier industry was imminent. While such slow down was avoided by the Company, its cost cutting efforts were continued throughout the balance of the year, thus offsetting for the most part the increase in purchased transportation.

(continued)

30 Other Developments and Trends

The 1980 operating income of \$4,869,000 was almost the same as that of 1979, \$4,899,000. But the operating ratio of the Company increased from 95.5 in 1979 to 96.1 in 1980. As previously mentioned all of the unfavorable variances took place in purchased transportation.

While the effective interest rate paid by the Company was substantially the same in 1980, as compared to that of 1979, because the Company was able to reduce its outstanding balance on its revolving credit agreement during the first three quarters of the year, its interest expense was slightly reduced from \$1,726,000 in 1979 to \$1,584,000 in 1980.

The income tax rate on earnings before extraordinary charges for 1980 of 32% was slightly less than that of 1979 (35%) because the Company purchased a larger number of revenue equipment than in the preceding year, thus generating a substantial investment credit made available to offset income taxes.

During 1980 the Congress of the United States enacted the Motor Carrier Act of 1980. This enactment resulted in the impairment of the book value of the operating rights owned by the Company and carried as intangible assets until the fourth quarter of 1980. During that quarter, \$3,963,000 of these intangible assets were written off as extraordinary charges.

Such write off, which was made without any income tax offset, was the cause of the net loss of \$1,738,000 reported by the Company for its fiscal year 1980.

Impact of Inflation and Changing Prices on Revenues and Income Before Extraordinary Charges.

As a result of significant and continued inflation, historical dollar accounting, as reflected in the financial statements, does not reflect the cumulative effects of increasing costs and changes in the purchasing power of the dollar.

While the consolidated revenues of the Company increased 13% over those of 1979, only 7% is attributable to increase in tonnage; the additional increase was mainly the result of inflation reflected in rate increases and fuel surcharges.

Until enactment of the Motor Carrier Act of 1980 in June 1980, the price structure of the Company for its services was subject to highly technical and time consuming procedures required by the Interstate Commerce Commission. Consequently, increases in rates for the services of the Company were, in most instances, delayed for long periods after increases in operating costs were incurred; this adversely affected the results of operations. Since the enactment of the Motor Carrier Act of 1980, the Interstate Commerce Commission has changed its rules and procedures allowing the Company more flexibility in rate negotiation with its customers. This change enables the Company to adjust its pricing policy on a more timely basis and consequently permits it to react promptly to increases in operating expenses which, in most instances, are subject to the pressure of inflation.

One of the most significant cost increases in the last two years has been that of fuel. To some

degree, the Company is protected from this fuel cost increase by being allowed to charge its customers for fuel surcharge which approximately reflects the increase in fuel cost paid by the Company or the owner-operators contracted to it.

Another significant impact on the results of operations of the Company is its ability to dispose of fully depreciated equipment at substantial gains. These gains are partially the result of inflation which pushed the realizable value of fully depreciated equipment beyond the salvage value assigned to it when purchased.

Liquidity and Capital Resources

At the end of 1980 working capital increased by 18% from that at the end of 1979, in spite of the fact that the Company carried a large account payable balance for revenue equipment purchased to expand its dry freight operation. Early in 1981 the Company borrowed an additional \$3,000,000 under its revolving credit agreement to liquidate its trade accounts payable for purchase of equipment thus converting these current liabilities into long-term debt and further improving its working capital.

During the first three calendar quarters of 1980, the Company used all available funds to reduce its borrowing under its revolving credit agreement in order to minimize its interest expense and, at one time during the third quarter, had reduced the balance outstanding under such credit to \$1,100,000. It also negotiated a reduction in the interest on this agreement from 1% to 1/2% above prime rate. In order to provide the funds necessary to purchase additional equipment during the fourth quarter of 1980, the Company borrowed an additional \$2,000,000 and at the end of 1980 had \$4,000,000 outstanding under its revolving credit agreement. On December 1, 1980, in anticipation of the needed increase in its trailer fleet, the Company negotiated an increase of \$3,000,000 to its revolving credit agreement bringing the total availability from \$5,000,000 to \$8,000,000. It is management's opinion that the new upper limit of the credit agreement will be sufficient to provide adequate funding of all new equipment the Company contemplates to acquire in the foreseeable future.

1979 vs. 1978:

Revenues in 1979 were \$110,009,000, an increase of \$11,292,000 or 11% over those of 1978.

The increase was principally due to (1) increases in rates (6% of revenues), (2) the addition, since May 1979, of fuel surcharges amounting to \$4,499,000 (4% of revenues) to the freight revenues in order to compensate for fuel cost increases and (3) increases in revenues of subsidiaries of \$1,200,000 (1% of revenues).

Net earnings in 1979 were \$2,047,000 as compared to \$1,814,000 in 1978 an increase of 13%. It should be noted that 1979 net earnings included approximately \$596,000 in after-tax gains on sale of revenue equipment; such after-tax gains in 1978 were only \$297,000.

During 1979 most operating expenses increased substantially principally because of the inflationary pressure on all aspects of the Company's operations. Salaries and wages increased 10% from \$13,949,000 in 1978 to \$15,313,000 mostly in the drivers and service personnel area. The increase of 18% in Operating and General Supplies from \$14,596,000 in 1978 to \$17,288,000 in 1979 was mostly attributable to increases in fuel costs which accounted for 38% of the total increase. The poor accident experience of the Company during 1979 was responsible for practically all of the increase in insurance, taxes and licenses from \$3,478,000 in 1978 to \$4,071,000 in 1979. The increase of 10% to \$2,925,000 in 1979 for depreciation and amortization was the result of substantial replacement mainly in the trailer fleet of the Company. Purchased transportation of \$63,227,000 in 1979 as compared to \$57,467,000 increased by 10% which is the approximate rate of increase from 1978 to 1979. The other operating expenses decreased 18% from \$2,800,000 in 1978 to \$2,286,000 in 1979 because of the inclusion under this caption of gains on sales of revenue equipment which in 1979 were \$924,000 as compared to \$393,000 in 1978.

Operating income was \$4,899,000 in 1979, an increase of 30% over the \$3,764,000 of 1978 and the operating ratio was 95.5 as compared to 96.2 in 1978. Both the operating income and the operating ratio of 1979 were favorably affected by the increase in gains on sale of revenue equipment mentioned previously.

Interest expenses increased from \$1,331,000 in 1978 to \$1,726,000 in 1979 or 30% in spite of a relatively small increase in the level of borrowing by the Company in 1979 over 1978. While the average interest rate paid by the Company in 1978 on its

long-term debt was approximately 10%, it was nearly 12% in 1979.

Income tax rates in 1979 were approximately 35% of pretax income as compared to 25% in 1978, as the result of the exhaustion for book purposes only of all investment credit carryovers in 1978.

At the end of December 1979, the Company sold its 80% interest in Transportation Products, Inc., one of its subsidiaries, for an amount which slightly exceeded the Company's investment in that subsidiary at that time. The results of operations (net income of \$13,000 after intercompany profit elimination) of Transportation Products, Inc. are included in the Consolidated Statement of Earnings of the Company.

Liquidity and Capital Resources

The working capital of the Company increased from \$4,774,000 at the end of 1978 to \$5,036,000 at the end of 1979. Such improvement resulted mainly from the increase in funded debt from \$12,227,000 to \$12,945,000 at the end of 1978 and 1979 respectively.

During 1979 the Company made a private placement of \$10,000,000 in fifteen year notes bearing a fixed interest rate of 10% per annum and with no principal repayment until March 1983. At the same time, the Company renegotiated its revolving credit agreement with two banks providing for a credit line of \$5,000,000 at a floating interest rate of 1% above the bank prime rate. Previously the Company had a similar agreement providing for a line of credit of up to \$12,000,000 with the same two banks. The funds generated by the new financing arrangements were used by the Company to repay existing debt and to provide additional working capital which was partially used to acquire additional revenue equipment.

Disclosure of supplemental stock and dividend information

The SEC requires that the principal market upon which any voting securities are traded be disclosed in the annual shareholder report along with the price range of the stock and dividends paid for each quarterly period for the past two fiscal years. All of the surveyed companies disclosed both stock and dividend information.

EXAMPLES Disclosure of principal market, quarterly stock price ranges and dividends paid by quarter

YELLOW FREIGHT SYSTEM, INC. (Common Stock)

Yellow Freight System, Inc. has been a publicly-owned corporation since 1959. Currently, the company's stock is held by approximately 3,800 shareholders. The company's only class of stock is common stock, traded in over-the-counter markets. Prices are quoted by the National Association of Securities Dealers Automatic Quotation System (NASDAQ) under the symbol YELL. Trading activity averaged about 19,000 shares per day in 1980, down from 22,000 shares per day in 1979.

The range of price quotations and dividends paid in each quarter of 1980 and 1979 are shown below:

Quarter Ended	High		Low		Dividends Per Share
	Bid	Asked	Bid	Asked	
<u>1980</u>					
March 31	17	- 17-3/4	12	- 12-3/4	\$.19
June 30	17-1/2	- 18-1/4	13-1/4	- 14	.19
September 30	19	- 19-1/8	15-3/4	- 16-1/4	.19
December 31	17-3/4	- 18	15-1/2	- 15-5/8	.19
					<u>\$.76</u>
<u>1979</u>					
March 31	22-3/4	- 23-1/2	19	- 19-3/4	\$.17
June 30	21	- 21-3/4	16-3/4	- 17-1/2	.17
September 30	22-3/4	- 23-1/2	18	- 18-3/4	.19
December 31	19-1/4	- 20	14-1/4	- 15	.19
					<u>\$.72</u>

32 Other Developments and Trends

ALLIED VAN LINES, INC. (Stock Information)

Allied Van Lines Class B Stock, which has no voting rights, is traded in the Over-the-Counter Market (symbol ALVLB). The number of record holders at December 31, 1980 was 1,117. The following table indicates quarterly high and low prices for the Company's Class B Stock, as reported in The Wall Street Journal:

Quarter	1980				1979			
	Bid		Ask		Bid		Ask	
	High	Low	High	Low	High	Low	High	Low
First	2-3/4	2	3-1/4	2-1/2	3-3/8	2-3/4	3-7/8	3-1/4
Second	2-7/8	2	3-3/8	2-1/2	3-1/8	2-3/4	3-5/8	3-1/4
Third	4-3/4	2-3/4	5-1/4	3-1/8	2-7/8	2-1/2	3-3/8	3
Fourth	4-7/8	4	5-1/8	4-1/4	2-3/4	2-1/8	3-1/4	2-5/8

Allied Van Lines Class A Stock is not publicly traded. The number of record holders at December 31, 1980 was 492.

Allied Van Lines, Inc. paid no dividends to its Class B stockholders in 1979 or 1980. On February 18, 1981 the Board of Directors declared a quarterly dividend of 5¢ per Class B Share, payable on April 1, 1981, to stockholders of record on March 13, 1981. There are no direct restrictions on the Company's present or future ability to pay dividends.

SECTION E

Balance Sheet

Balance sheet title

All companies in the survey used the title "Balance Sheet" or "Consolidated Balance Sheet."

Cash

In the reports surveyed, a number of the captions used to describe cash included some reference to temporary investments or inclusion of current investments of a form similar to cash. Table 6 summarizes the captions used by the surveyed companies.

Fifteen reports surveyed used a separate balance sheet caption for certificates of deposit or temporary cash investments.

Disclosure of compensating balances is required by both the SEC and the ICC. A "compensating balance" is defined as that portion of any demand deposit (or any time deposit or certificate of deposit) maintained by a corporation (or by any person on behalf of the corporation) with a lending institution under an existing borrowing arrangement. Such arrangements would include both outstanding borrowings and the assurance of future credit availability.

Footnote disclosure is required for all compensating balance arrangements, including those not reduced to writing. The compensating balance should be segregated on the balance sheet only if compensating balances are legally restricted or are related to long-term borrowing arrangements and can be computed as a fixed amount at the balance sheet date. The current or noncurrent classification of the deposit generally should be the same as the related debt.

Table 7 indicates the type of compensating balance disclosure made by the surveyed companies.

The disclosure was generally included in the long-term debt footnote; however, in one instance, there was a separate footnote on compensating balance arrangements.

TABLE 6. CASH CAPTIONS

	<u>No. of Surveyed Companies</u>
Cash	28
Cash and temporary investments	5
Cash, including certificates of deposit of \$XXX,XXX	3
Cash and short-term investments	2
Cash and cash equivalents	1
Cash and cash investments	1
	<u>40</u>

TABLE 7. COMPENSATING BALANCE DISCLOSURE

	<u>No. of Surveyed Companies</u>
Footnote disclosure of terms or amounts	23
Footnote disclosure that no material compensating balances exist	4

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EXAMPLES Compensating balance disclosure

MAYFLOWER CORPORATION (Long-Term Debt Footnote)

At December 31, long-term debt includes the following:

	December 31,	
	1980	1979
Note payable to bank, 10-3/4%, payable in quarterly installments to December, 1984, secured by revenue equipment	\$ 5,290,124	\$ 6,000,000
Mortgage notes payable, interest rates from 8-3/8% to 9-1/4%, payable in monthly installments, maturing at various dates to September, 1996, secured by land and buildings	4,112,233	4,503,990
Advances under unsecured bank revolving/term loan at prime rate	3,720,000	--
Notes payable to former shareholders of acquired companies, interest rates from 7-1/2% to 12-1/2%, payable in installments to 1990	228,142	249,122
Other notes payable, 6-1/2% to 16%, payable in installments to 1990	495,876	611,326
	13,846,375	11,364,438
Less--portion due within one year	(1,545,333)	(1,489,626)
	<u>\$12,301,042</u>	<u>\$ 9,874,812</u>

The Company has an unsecured \$11,000,000 revolving/term loan agreement with a bank dated December 30, 1980. Borrowings against the revolving loan are payable by April 30, 1982 and bear interest at the bank's prime rate, payable quarterly. The Company has agreed to maintain compensating balances with the bank of at least \$250,000 and pay an annual fee of 1/2% on the unused amount of the bank's commitment. The agreement also provides the Company an option to convert any unpaid revolving loan balances as of April 30, 1982 to an unsecured five year term loan, payable quarterly, including interest at 1/2% above the bank's prime rate.

Maturities on long-term debt during the next five years are as follows:

Year Ending December 31,	
1981	\$1,545,333
1982	1,510,573
1983	1,560,005
1984	1,623,667
1985	259,038

CAROLINA FREIGHT CARRIERS CORPORATION (Long-Term Debt Footnote)

Informal compensating balances of 10% of the line of credit are maintained with the banks participating in the revolving credit agreement. Compliance with the compensating balance requirement is measured by average rather than fixed balances. The appropriate level of compensating balances at December 31, 1980 and 1979 was \$1,000,000.

LEASEWAY TRANSPORTATION CORP. (Equipment Financing Obligations Footnote)

These obligations include installment notes, purchase contracts and commercial paper. The notes and contracts are collateralized by revenue equipment with a cost of \$548 million at December 31, 1980 and by revenue from leases. Such obligations are owed to the following (amounts in thousands):

	1980	1979	1978
Banks	\$203,351	\$213,171	\$172,781
Equipment manufacturers	108,402	138,068	155,669
Others	19,900	25,020	--
	<u>\$331,653</u>	<u>\$376,259</u>	<u>\$328,450</u>

The balance at December 31, 1980 is due as follows: 1981--\$109,545 (current portion); 1982--\$97,436; 1983--\$69,892; 1984--\$35,759; 1985--\$13,770; after 1985--\$5,251.

The interest rates on these obligations ranged from 6.3% to 18.5% at December 31, 1980. The average interest rates incurred on equipment financing obligations and other long-term debt were 10.5% for 1980, 9.7% for 1979 and 8.5% for 1978. Under informal arrangements with certain banks, the Company has agreed to maintain compensating cash balances of approximately \$3 million relating to its borrowings.

The Company began issuing commercial paper in 1979. At December 31, 1980, \$4.9 million of commercial paper was outstanding with an interest rate of 18.5%. A commercial paper credit facility permits the Company to refinance up to \$50 million of commercial paper into long-term equipment financing obligations. Accordingly, the commercial paper at December 31, 1980 has been classified as long-term debt.

TELECOM CORPORATION (Cash Footnote)

The Company has an informal agreement with banks which provide that it will maintain compensating cash balances at such banks equivalent to 10% of the outstanding indebtedness to the banks, plus 10% of the committed sums pursuant to the revolving credit agreements discussed in Note 5. Such compensating balances totaled \$5,000,000 and \$4,800,000 at December 31, 1980 and 1979, respectively. Cash balances of \$4,458,000 at December 31, 1980 were legally restricted. Restricted balances are principally reserve deposits which are required under the Company's self-insurance program and provide a major portion of the compensating balances referred to above.

Investments

Short-term investments were generally included in the current assets section of the balance sheet; however, some investments in marketable securities were shown as noncurrent assets. Table 8 summarizes the descriptions used in reporting investments.

FASB Statement No. 12, "Accounting for Certain Marketable Securities," requires that marketable equity securities be carried at the lower of aggregate cost or market value. Realized gains and losses are to be included in net income in the period incurred. Any change in the excess of aggregate cost over market value for securities classified as current assets should be included in the determination of net income; however, any change in such excess for noncurrent securities should be included as a separate item in the equity section of the balance sheet. Subsequent recoveries in market price (up to the amount of original cost) should be credited to income in the case of securities classified as current and for securities classified as noncurrent as a reduction of the accumulated net unrealized loss shown in the equity section of the balance sheet.

TABLE 8. INVESTMENTS CAPTIONS

	No. of Surveyed Companies		No. of Surveyed Companies
Current asset:		Noncurrent asset:	
Short-term or temporary investments	19	Investments or investments and other assets	8
Marketable securities	3	Investment, other	8
U.S. Government securities or similar caption	1		

EXAMPLES Investments

U.S. TRUCK LINES, INC. OF DELAWARE
(Balance Sheet)

	December 31	
	1980	1979
Current Assets:		
Certificates of deposit	\$5,214,404	\$ 508,256
U.S. and state government securities	5,753,621	13,321,357
Noncurrent Assets:		
Investments and other assets:		
U.S. and state government securities, due through 1987	6,396,337	8,418,515
Other assets	465,582	638,080
	<u>6,861,919</u>	<u>9,056,595</u>

(Notes to Financial Statements)

Investments

Short-term investments and certificates of deposit are carried at cost, which approximates market, plus accrued interest. Long-term investments are carried at cost, net of accumulated amortization of premiums and accretion of discounts, which approximates market.

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CONSOLIDATED FREIGHTWAYS, INC. (Balance Sheet)

December 31	1980	1979
	(In thousands)	
Current Assets		
Temporary investments, at cost	\$20,257	\$ 3,202
Noncurrent Assets		
Investments and Other Assets		
Investment in Freightliner Credit Corporation (Note 8)	\$23,645	\$20,157
Deferred charges and other assets	15,546	15,383
	<u>\$39,191</u>	<u>\$35,540</u>

(Notes to Financial Statements)

8. Freightliner Credit Corporation

Freightliner Credit Corporation (FCC) is an unconsolidated, wholly owned sales finance subsidiary of the Company. The summarized financial statements of FCC follow:

Statements of Income

Years Ended December 31	1980	1979	1978
	(In thousands)		
Interest and other income	\$17,758	\$10,874	\$5,692
Expenses			
Interest expense	9,590	5,625	2,692
Other operating expenses	3,328	2,405	1,635
Income taxes	2,352	1,335	683
	<u>15,270</u>	<u>9,365</u>	<u>5,010</u>
Net Income	<u>\$ 2,488</u>	<u>\$ 1,509</u>	<u>\$ 682</u>

Balance Sheets

December 31	1980	1979
	(In thousands)	
Assets		
Cash and temporary investments	\$ 507	\$ 1,070
Receivables, net of allowances	120,640	95,592
Other assets	3,901	997
Total Assets	<u>\$125,048</u>	<u>\$97,659</u>
Liabilities and Equity		
Revolving credit and master trust notes	\$ 22,500	\$24,200
Other debt, all long term	74,286	50,000
Other liabilities	4,617	3,302
Equity of Consolidated Freightways, Inc.	23,645	20,157
Total Liabilities and Equity	<u>\$125,048</u>	<u>\$97,659</u>

YELLOW FREIGHT SYSTEM, INC. (Balance Sheet)

	1980	1979
	(In Thousands)	
Noncurrent Assets		
Investment in Petroleum Exploration Ventures (Note 1)	\$ 39,400	\$ 26,814

(Notes to Financial Statements)

Investment in petroleum exploration ventures is accounted for under the full cost method of accounting whereby all such costs are capitalized and amortized on the unit-of-production method based on estimated recoverable reserves. Accumulated amortization amounted to \$4,182,000 at December 31, 1980, and \$1,544,000 at December 31, 1979.

TELECOM CORPORATION (Balance Sheet)

	1980	1979
	(In thousands)	
Noncurrent Assets		
Investments:		
By SBIC subsidiary at market or fair value (cost--1980, \$5,829,000; 1979, \$4,871,000) (Note 4)	\$19,092	\$11,263
Other investments	2,711	1,591
	<u>\$21,803</u>	<u>\$12,854</u>

(continued)

(Notes to Financial Statements)

4. Investments by SBIC Subsidiary

Investments of the Company's SBIC subsidiary with cost reconciled to value consisted of (in thousands):

	Cost Basis	Unrealized Appreciation	Unrealized Depreciation	Value Basis
1980:				
Notes receivable	\$ 157			\$ 157
Convertible debt securities of small business concerns	2,100			2,100
Capital stock of small business concerns	3,992	\$13,114	\$ 5	17,101
Warrants, options and other stock rights acquired	31	154		185
	<u>6,280</u>	<u>13,268</u>	<u>5</u>	<u>19,543</u>
Less current portion of notes and debt securities	451			451
	<u>\$5,829</u>	<u>\$13,268</u>	<u>\$ 5</u>	<u>\$19,092</u>
1979:				
Notes receivable	\$ 422			\$ 422
Convertible debt securities of small business concerns	1,960		\$200	1,760
Capital stock of small business concerns	3,031	\$ 3,666	13	6,684
Warrants, options and other stock rights acquired	48	2,961	22	2,987
	<u>5,461</u>	<u>6,627</u>	<u>235</u>	<u>11,853</u>
Less current portion of notes and debt securities	590			590
	<u>\$4,871</u>	<u>\$ 6,627</u>	<u>\$235</u>	<u>\$11,263</u>

The changes in net unrealized appreciation on SBIC investments for the three years ended December 31, 1980, consisted of (in thousands):

	Change in Unrealized Stockholders' Equity		
	Appreciation	Depreciation	Net
Balances at January 1, 1980	\$ 6,627	\$235	\$ 6,392
Balances at December 31, 1980	<u>13,268</u>	<u>5</u>	<u>13,263</u>
	6,641	230	6,871
Less provision for deferred income taxes on change in appreciation on investments	<u>1,860</u>	<u>100</u>	<u>1,960</u>
Net change in unrealized appreciation and depreciation	<u>\$ 4,781</u>	<u>\$130</u>	<u>\$ 4,911</u>
Balances at January 1, 1979	\$ 6,772	\$417	\$ 6,355
Balances at December 31, 1979	<u>6,677</u>	<u>235</u>	<u>6,392</u>
	(145)	182	37
Less provision (benefit) for deferred income taxes on change in appreciation on investments	<u>(175)</u>	<u>3</u>	<u>(172)</u>
Net change in unrealized appreciation and depreciation	<u>\$ 4,30</u>	<u>\$179</u>	<u>\$ 209</u>
Balances at January 1, 1978	\$ 3,086	\$426	\$ 2,660
Balances at December 31, 1978	<u>6,772</u>	<u>417</u>	<u>6,355</u>
	3,686	9	3,695
Less provision for deferred income taxes on change in appreciation on investments	<u>1,106</u>	<u>6</u>	<u>1,112</u>
Net change in unrealized appreciation and depreciation	<u>\$ 2,580</u>	<u>\$ 3</u>	<u>\$ 2,583</u>

(continued)

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A condensed statement of condition of the SBIC subsidiary, prepared on the value basis (in thousands), follows. Amounts immaterial to the consolidated financial statements of the Company are not separately disclosed.

Assets

	1980	1979
Cash and temporary cash investments	\$ 4,810	\$ 6,642
Intercompany receivables	142	
Other current assets	647	757
Investments	19,092	11,263
Other noncurrent assets	325	352
	<u>\$25,016</u>	<u>\$19,014</u>

Liabilities and Stockholder's Equity

	1980	1979
Current maturities of long-term debt	\$ 2,604	\$ 762
Accounts payable and accrued expenses	101	82
Intercompany payables	82	250
Long-term debt, noncurrent:		
Notes and mortgages	10	310
Subordinated debentures	5,393	7,697
Other noncurrent liabilities	3,599	1,650
Stockholder's equity	13,027	8,063
	<u>\$25,016</u>	<u>\$19,014</u>

Income (loss) from SBIC operations was composed of the following (in thousands):

	1980	1979	1978
Gains on sale of investments		\$ 4,572	\$ 949
Loss on disposition of investments		(326)	(83)
Write-down of investments due to permanent impairment of value	\$(238)		
Interest income	977	760	714
Other income, net of other expense	198	65	159
Interest expense	(745)	(367)	(387)
General and administrative expense	(282)	(265)	(256)
	<u>\$ (90)</u>	<u>\$ 4,439</u>	<u>\$1,096</u>

At December 31, 1980, investments in debt securities, at value, included \$1,576,000 of subordinated notes, \$518,000 of such notes were collateralized by various mortgages, stock and other assets.

Significant investments by industry category, at value, were as follows (in thousands), with the number of companies included therein shown parenthetically:

	1980
Computer related equipment and systems (2)	\$ 2,886
Service industries:	
Oilfield (2)	7,903
Other (4)	1,638
Miscellaneous manufacturing (9)	3,580
Semiconductor manufacturing (1)	2,633
Retail trade (2)	622
Other (1)	282
	<u>\$19,544</u>

Accounts receivable

Accounts receivable balances generally included customer and interline receivables. Table 9 indicates the captions used in this section of the balance sheet. Categories of accounts receivable frequently were shown on the balance sheet or in the notes to the financial statements.

TABLE 9. RECEIVABLES CAPTIONS

	No. of Surveyed Companies
Accounts receivable	19
Receivables	12
Trade receivables or trade accounts receivable	4
Customer and interline accounts receivable	3
Accounts and notes receivable	2
	<u>40</u>

EXAMPLES Accounts receivable

BRIGGS TRANSPORTATION CO. (Balance Sheet)

	December 31,	
	1980	1979
Current Assets		
Trade accounts receivable, less allowance for doubtful accounts of \$52,000 and \$51,000	\$3,482,012	\$3,214,223

MCLEAN TRUCKING COMPANY (Balance Sheet)

	1980	1979
Current Assets		
Customer, interline, and other receivables, less allowance for uncollecti- bles (\$1,786,000 in 1980, \$1,764,000 in 1979)	\$59,305,416	\$56,603,760

COASTAL INDUSTRIES, INC. (Balance Sheet)

	September 30,	
	1980	1979
Current Assets		
Notes and accounts receivable, net of allowance for uncol- lectible accounts	\$6,848,958	\$7,998,349

MID-AMERICAN LINES, INC. (Balance Sheet)

	1980	1979
Current Assets		
Accounts receivable, less reserves of \$50,000	\$2,787,699	\$3,069,937

Allowance for doubtful accounts

Table 10 indicates the various methods of presenting the allowance for doubtful accounts on the balance sheet. The majority of the surveyed companies disclosed both the existence of an allowance and the amount thereof.

TABLE 10. DISCLOSURE OF ALLOWANCE FOR DOUBTFUL ACCOUNTS

	No. of Surveyed Companies
Amount shown parenthetically in the receivable description	27
Allowance deducted from receivables on the balance sheet	6
Amount of allowance disclosed in a footnote	1
Amount of allowance not disclosed	6
	<u>40</u>

EXAMPLES Allowance for doubtful accounts

PRESTON TRUCKING COMPANY, INC.
(Balance Sheet)

	1980	1979
Current Assets		
Accounts receivable, less allowance for doubtful accounts of \$422,813 in 1980 and \$432,431 in 1979	\$15,946,340	\$16,107,370

REFRIGERATED TRANSPORT CO., INC.
(Balance Sheet)

	1980	1979
Current Assets		
Receivables		
Freight revenue	\$11,602,000	\$ 9,373,000
Owner-operators	1,118,000	539,000
Refundable income taxes	979,000	--
Other	1,134,000	1,549,000
	<u>14,833,000</u>	<u>11,461,000</u>
Less allowance for doubtful receivables	538,000	519,000
Net receivables	<u>14,295,000</u>	<u>10,942,000</u>

MIDWESTERN DISTRIBUTION, INC.
(Balance Sheet)

	December 27, 1980	December 31, 1979
Current Assets		
Receivables, net	\$10,806,389	\$14,714,278

(Notes to Financial Statements)

Receivables

	December 27, 1980	December 31, 1979
Installment notes receivable, current	\$ 5,465,200	\$ 5,594,733
Accounts receivable, trade	4,244,298	4,606,739
Accounts receivable, independent contractors	372,670	4,116,290
Refundable income taxes	297,814	257,898
Accounts receivable, other	699,407	418,618
	<u>11,079,389</u>	<u>14,994,278</u>
Less allowance for doubtful accounts	273,000	280,000
	<u>\$10,806,389</u>	<u>\$14,714,278</u>

The unearned portion of the finance charges of \$1,495,766 for 1980 and \$1,776,485 for 1979 have been offset against current and long-term installment notes receivable for financial reporting purposes.

The installment notes receivable are collateralized by the equipment sold to the independent contractors.

Inventories and operating supplies

Inventories for motor carriers consist primarily of fuel, repair parts, tires and miscellaneous supplies to be used in operations. A summary of the primary captions used is shown in Table 11. The caption "inventories" was the more frequently used term. However, of the 17 surveyed companies using the caption "inventories," 9 had significant noncarrier operations.

The methods used in pricing inventories or operating supplies are summarized in Table 12.

When the basis of pricing inventories or operating supplies was mentioned, it was either disclosed in the balance sheet caption or in the notes to the financial statements.

TABLE 11. INVENTORY CAPTIONS

	No. of Surveyed Companies
Inventories	17
Repair parts and operating supplies	6
Materials and supplies	4
Fuel, tires, parts and sup- plies	4
Operating supplies	3
Prepaid expenses including inventories	2

TABLE 12. METHODS USED TO PRICE INVENTORY

	No. of Surveyed Companies
Lower of FIFO cost or market	8
Cost	8
Average cost	2
Lower of average cost or market	1
Lower of LIFO cost or market	1
Not disclosed	16

EXAMPLES Disclosure of inventory valuation

BUCKHORN INC. (Balance Sheet)

	December 31,	
	1980	1979
Current Assets		
Inventories		
Finished goods	\$1,799,105	\$ --
Raw materials and supplies	1,182,527	340,206

(Notes to Financial Statements)

Inventories

Inventories are based upon physical determinations during the year. The Company utilizes the lower of cost (first-in, first-out method) or market for determining cost for substantially all of its inventories.

ROADWAY EXPRESS, INC. (Balance Sheet)

December 31,
1980 1979
(dollars in thousands)

Current Assets		
Fuel, tires, parts and supplies	\$7,759	\$7,473

(Notes to Financial Statements)

Fuel, tires, parts and supplies

These items are used in operations and are valued at the lower of average cost or market.

BRIGGS TRANSPORTATION CO. (Balance Sheet)

December 31,
1980 1979

Current Assets		
Materials and supplies, at cost	\$614,022	\$705,022

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PRESTON TRUCKING COMPANY, INC.
(Balance Sheet)

	1980	1979
Current Assets		
Inventories of repair parts, tires and supplies, at average cost	\$1,893,549	\$2,013,339

Prepaid expenses and prepaid tires

Prepaid expenses included taxes, insurance, licenses and tires in service. The captions used on the balance sheet are summarized in Table 13.

ICC accounting regulations prohibit motor carriers from capitalizing tires purchased on new units as a part of revenue equipment. ICC regulations permit carriers to either capitalize tires and amortize them over their estimated useful lives or to expense the entire cost of the tires at the time they are placed in service. In shareholder reports, tires were classified on the balance sheet as shown in Table 14.

The basis for the dual method (expense vs. capitalization) used in accounting for tires can best be summarized by consideration of the actual average life of tires in service. Carriers with high utilization of equipment combined with short to medium length hauls will often have an average tire life of less than 12 months and, accordingly, expense tires placed in service immediately. On the other hand, carriers with less than high equipment utilization combined with extremely long hauls over interstate highways may have an average tire life in excess of 12 months and, therefore, capitalize and amortize tires placed in service over their average estimated useful lives.

TABLE 13. PREPAID EXPENSE CAPTIONS

	No. of Surveyed Companies
Prepaid expenses	21
Prepaid expenses (including tires in service)	9
Prepaid expenses and other current assets	4
Prepayments	4
Inventories and prepaid expenses	2
Prepaid expenses and deposits	<u>2</u>
	<u>42*</u>

TABLE 14. PREPAID TIRE CLASSIFICATIONS

	No. of Surveyed Companies
Separate line item in prepaid expenses	12
Separate line item	4
Amount parenthetically dis- closed in prepaid expenses	2
Included in prepaid expenses-- amount not disclosed	1
Not shown	<u>21</u>
	<u>40</u>

*Two surveyed carriers had two major prepaid expense captions.

EXAMPLES Prepaid expenses and prepaid tires**MID-AMERICAN LINES, INC.**
(Balance Sheet)

	1980	1979
Current Assets		
Prepaid tires and tubes	\$ 415,297	\$ 568,234
Other prepayments	392,558	330,969

CAROLINA FREIGHT CARRIERS CORPORATION
(Balance Sheet)

	1980	1979
Current Assets		
Prepayments		
Tires on equipment in use	\$4,006,250	\$3,925,180
Other	939,201	791,600

CHEMICAL LEAMAN CORPORATION
(Balance Sheet)

	1980	1979
Current Assets		
Prepaid expense		
Tires and hoses in service	\$3,405,000	\$2,885,000
Licenses, insurance and other	1,346,000	1,009,000

Various methods of amortization of purchased tires were noted. Disclosure of the amortization method used was usually made in the accounting policies footnote. The methods of amortization are summarized in Table 15.

TABLE 15. AMORTIZATION METHODS FOR TIRES

	No. of Surveyed Companies
Amortized over "the estimated useful life of the tires"	12
Based on mileage	4
Capitalized as part of revenue equipment (replacements expensed)	1
Charged off when placed in service	1
Not disclosed	22
	<u>40</u>

EXAMPLES Accounting for tires**KENAN TRANSPORT CO.**
(Accounting Policies Footnote)

Operating Property

Operating property is recorded at cost. The cost of tires on revenue equipment is included in prepayments and amortized over the life of the tires.

TRANSCON LINES
(Accounting Policies Footnote)

Property and Depreciation

Property is depreciated on a straight-line basis over the estimated useful lives of the assets. Operating equipment excludes the cost of tires, which is carried as a prepaid expense and amortized on a mileage basis.

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OVERNITE TRANSPORTATION COMPANY (Accounting Policies Footnote)

Depreciation

For financial reporting purposes the Company computes depreciation on the straight-line method over the estimated useful lives of the respective assets as follows:

Revenue equipment	3 - 8 years
Buildings and components	3 - 50 years
Other equipment	3 - 10 years

The cost of revenue equipment (tractors, trailers and trucks) does not include the cost of tires and tubes, which is expensed when placed in service. Maintenance and repairs are expensed as incurred. Improvements to buildings are capitalized.

Capital assets

Capital assets include land, buildings, all carrier operating property, furniture and fixtures, and other miscellaneous fixed assets. A breakdown of the components under these captions was disclosed on the balance sheet except in five instances where the detail was included in a footnote or in supplemental financial statement information.

The primary captions used in the presentation of capital assets are shown in Table 16.

TABLE 16. CAPITAL ASSETS CAPTIONS

	No. of Surveyed Companies
Property, plant and equipment	13
Property and equipment	12
Operating property	6
Carrier operating property	3
Operating property and equipment	2
Tangible property	1
Plant and equipment	1
Property on operating leases	1
Property, structures and equipment	1
	<u>40</u>

EXAMPLES Capital asset presentation**MIDWESTERN DISTRIBUTION, INC.**
(Balance Sheet)

	December 27, 1980	December 31, 1979
Assets		
Property and equipment	\$ 7,528,645	\$ 7,364,527
(Notes to Financial Statements)		
Property and Equipment:		
	December 27, 1980	December 31, 1979
Cost:		
Land	\$ 188,193	\$ 163,716
Structures	1,047,239	962,593
Revenue equipment-- trailers	9,097,958	8,234,564
Other equipment and furniture	878,702	875,347
	<u>11,212,092</u>	<u>10,236,220</u>
Accumulated depreciation	<u>3,683,447</u>	<u>2,871,693</u>
	<u>\$ 7,528,645</u>	<u>\$ 7,364,527</u>

ROADWAY EXPRESS, INC.
(Balance Sheet)

	December 31, 1980	December 31, 1979
	(dollars in thousands)	
Assets		
Carrier Operating Prop- erty--at cost		
Land	\$ 27,279	\$ 21,818
Structures	94,991	86,229
Revenue equipment	276,475	257,037
Other operating equip- ment	47,538	43,210
Leasehold improvements	693	666
Construction in prog- ress	4,844	4,034
	<u>451,820</u>	<u>412,994</u>
Less allowances for depreciation	<u>235,007</u>	<u>190,275</u>
Total Carrier Oper- ating Property	<u>216,813</u>	<u>222,719</u>

CAROLINA FREIGHT CARRIERS CORPORATION
(Balance Sheet)

	1980	1979
Assets		
Plant and equipment, at cost		
Revenue and service equipment	\$ 62,832,023	\$59,090,645
Land and structures	28,862,875	26,808,259
Other equipment	10,937,064	10,174,297
Leasehold improvements	259,892	249,472
	<u>102,891,854</u>	<u>96,322,673</u>
Less--accumulated depreciation and amortization	<u>(48,656,591)</u>	<u>(41,253,085)</u>
Net plant and equipment	<u>54,235,263</u>	<u>55,069,588</u>

RYDER SYSTEM, INC.
(Balance Sheet)

	1980	1979
	(Thousands of dollars)	
Assets		
Revenue earning equipment, at cost		
Vehicles on operating leases, net of accumu- lated depreciation:		
1980--\$190,914; 1979-- \$155,792	\$ 592,838	\$531,701
Other revenue equipment, net of accumulated depreciation: 1980-- \$221,110; 1979-- \$185,105	<u>413,432</u>	<u>398,607</u>
Net revenue earning equipment	<u>1,006,270</u>	<u>930,308</u>
Operating property and equip- ment, at cost:		
Land	49,953	44,981
Buildings and improvements	169,047	124,786
Service vehicles	24,045	21,819
Other equipment and improvements to leased premises	79,237	66,556
Appropriations in process	<u>12,087</u>	<u>28,188</u>
	<u>334,369</u>	<u>286,330</u>
Less accumulated depreciation	<u>71,831</u>	<u>56,609</u>
Net operating property and equipment	<u>262,538</u>	<u>229,721</u>

EXAMPLES Accounting for capital assets**MAYFLOWER CORPORATION**
(Accounting Policies Footnote)**Depreciation and Maintenance**

Depreciation of property and equipment is provided primarily by the straight-line method at annual rates considered adequate to amortize the costs over the estimated useful lives of the assets. The lives used in computing depreciation during the periods were:

Buildings and improvements	20 to 40 years
Revenue equipment--tractors and trailers	5 to 8 years
Other operating equipment and improvements	4 to 10 years

Expenditures for maintenance and repairs are charged to income when incurred. Expenditures for betterments and major renewals are capitalized. The carrying amounts of major assets sold, retired, or otherwise disposed of and the related accumulated provisions for depreciation are eliminated from the accounts. Any resulting gain or loss, including that on equipment traded, is included in income.

RLC CORP.
(Accounting Policies Footnote)**Other Property and Equipment**

The Company's property and equipment accounts, in thousands of dollars, and the asset lives upon which depreciation is taken, are summarized as follows:

	September 30,		Estimated
	1980	1979	Useful Lives In Years
Land	\$ 9,744	\$ 8,171	
Bulk transportation equipment	128,017	122,555	4 to 8
Pollution control facilities	26,989	24,943	3 to 25
Bulk storage facilities	7,259	7,144	5 to 30
Transportation service and administrative facilities	20,931	18,444	3 to 40
Other operating assets	2,260	3,907	3 to 40
Less accumulated depreciation	(78,188)	(70,334)	
	<u>\$117,012</u>	<u>\$114,830</u>	

The net gain on disposition of property, including leasing equipment, was \$10,595,000 in 1980 and \$15,573,000 in 1979.

Commitments for the purchase of leasing and bulk transportation equipment amounted to \$30,341,000 at September 30, 1980.

COASTAL INDUSTRIES, INC.
(Accounting Policies Footnote)**Carrier Operating Property**

Properties, including capitalized leases, are valued at cost. Maintenance and repairs which do not improve or extend the life of the respective assets are charged to current operations. Upon retirement or disposal of an asset, the asset and related allowance for depreciation accounts are eliminated. Any gain or loss on such transactions is included in income.

Depreciation

Provisions for depreciation of carrier operating property, which includes capitalized lease amortization, are computed on the straight-line method based on the estimated useful lives and salvage values of the various items. The cost of leasehold improvements is being amortized over the terms of the leases or useful lives, whichever is less. Ranges of the estimated lives in computing provisions for depreciation and amortization are shown below:

Class of Property	Years
Structures	5-45
Revenue equipment	3-10
Other equipment	3-10
Leasehold improvements	2-15

Operating rights

The Motor Carrier Act of 1980 deregulated the motor carrier industry. Prior to deregulation, operating rights permitted carriers to transport freight over specified routes between states with limited competition. The value of these interstate operating rights is now diminished because substantially all restrictions on market entry are removed by the Act. As a result of the Act, the Financial Accounting Standards Board (FASB) cited this loss of limited competition as both unusual and infrequent and issued Statement No. 44, "Accounting for Intangible Assets of Motor Carriers."

Statement No. 44 requires the carrying amount of interstate operating rights to be written off as an extraordinary item. If a company acquired intangible assets in connection with the acquisition of a motor carrier, a determination has to be made as to whether such intangibles, when acquired, were in the nature of operating rights, other identifiable intangible assets, or goodwill. If an allocation cannot be determined, the Statement states that there should be a presumption that all the intangibles are operating rights. The provisions of this Statement were effective for financial statements with fiscal periods ending after December 15, 1980.

Some carriers also deducted this write-off on their federal tax returns even though tax legislation to permit deduction was only anticipated at the time. However, most carriers did not tax affect the extraordinary charge on their income statements due to the uncertainty of realizing any future tax benefits. Table 17 below summarizes the number of surveyed carriers that wrote off operating rights in 1980.

The Economic Recovery Tax Act of 1981 now permits deduction of operating rights as summarized below:

Prior Law Costs of acquiring motor carrier operating rights were generally treated as intangible assets and were not subject to amortization.

New Law Costs of acquiring motor carrier operating rights held on, or acquired under a binding contract in effect on, July 1, 1980, may be amortized over a 60-month period beginning with the later of July 1, 1980, the date of acquisition, or at the taxpayer's election, the first month of the first tax year beginning after July 1, 1980.

For additional commentary on motor carrier operating rights deduction see our publication "The Economic Recovery Act of 1981" (E&W No. 65780).

TABLE 17. WRITE-OFF OF OPERATING RIGHTS IN 1980

	<u>No. of Surveyed Companies</u>
Operating rights written off	36*
Operating rights not written off	4**
	<u>40</u>

* Of these carriers, one wrote off operating rights net of anticipated tax benefits.

** These carriers either had no operating rights or had year ends prior to the effective date of the Motor Carrier Act of 1980 (July 1, 1980).

Relationship of write-off of operating rights to total assets

Carrier	Operating Rights Written Off	Total Assets Prior to Write-Off	Percentage of Write- Off to Total Assets
	(000 omitted)		
Allied Van Lines, Inc.	\$ 752	\$ 58,127	1.3%
Arkansas Best Corporation	17,126	181,453	9.4
Atlas Van Lines, Inc.	2,901	53,083	5.5
The Bekins Company	1,504	110,214	1.4
Briggs Transportation Co.	5,012	30,852	16.2
Carolina Freight Carriers Corporation	4,545	97,219	4.7
Chemical Leaman Corporation	4,800	118,853	4.0
Coastal Industries, Inc.	5,104	42,724	11.9
Consolidated Freightways, Inc.	30,826	814,886	3.8
Cooper-Jarrett, Inc.	3,264	26,737	12.2
Eazor Express, Inc.	3,128	24,470	12.8
Flexi-Van Corporation	1,753	673,710	.3
Interstate Motor Freight System	6,036	143,109	4.2
IU International Corporation	25,429	1,411,028	1.8
Kenan Transport Company	1,356	17,589	7.7
Leaseway Transportation Corp.	2,029	780,843	.3
Lynden Transport, Inc.	338	25,219	1.3
Mid-American Lines, Inc.	571	10,570	5.4
Midwestern Distribution, Inc.	2,565	38,136	6.7
Murphy Motor Freight Lines, Inc.	3,538	35,801	9.9
New Penn Motor Express, Inc.	668	30,520	2.2
Overnite Transportation Company	7,096	139,778	5.1
Penn Yan Express, Inc.	1,585	19,023	8.3
PepsiCo, Inc.	17,762	3,435,300	.5
Preston Trucking Company, Inc.	969	92,074	1.1
RLC Corp.	10,484 (A)	362,193	2.9
Refrigerated Transport Co., Inc.	3,963	42,477	9.3
Roadway Express, Inc.	26,802	612,833	4.4
Rocor International	232 (B)	28,247	.8
Ryder System, Inc.	602	1,646,793	-
TeleCom Corporation	18,211	271,587	6.7
T.I.M.E.-DC, Inc.	8,313	91,405	9.1
Transcon Lines	16,769	110,037	15.2
Tri-State Motor Transit Co.	9,827	50,470	19.5
U.S. Truck Lines, Inc. of Delaware	14,072	100,017	14.1
Yellow Freight System, Inc.	34,798	483,352	7.2
	<u>\$294,730</u>	<u>\$12,210,729</u>	<u>2.4%</u>

(A) Write-off was net of tax; amount shown here is at gross.

(B) Operating rights were not considered material; therefore, the write-off was not reported as an extraordinary item.

EXAMPLES Intangible assets

CAROLINA FREIGHT CARRIERS CORPORATION (Balance Sheet)

	1980	1979
Operating Rights and Other Assets		
Operating rights	\$ --	\$ 4,642,216
Investment in Motor Carrier Insurance, Ltd.	562,541	409,029
Other	1,496,158	1,247,261
Total	2,058,699	6,298,506

REFRIGERATED TRANSPORT CO., INC. (Balance Sheet)

	1980	1979
Other assets		
Intangible assets, net of amortization	\$ --	\$ 3,482,000
Deposits and cash surrender value of insurance policies on officers' lives, net of policy loans	693,000	519,000
Other, at cost	729,000	867,000
Total other assets	1,422,000	4,868,000

CHEMICAL LEAMAN CORPORATION (Balance Sheet)

	1980	1979
Intangible property	\$ --	\$4,805,000
Deferred charges and other assets	1,856,000	2,116,000
Net noncurrent assets of discontinued operations	5,695,000	1,569,000

OVERNITE TRANSPORTATION COMPANY (Balance Sheet)

	1980	1979
Franchises and rights		
Cost	--	\$8,015,000
Less accumulated amortization	--	919,000
Net franchises and rights	--	7,096,000

MURPHY MOTOR FREIGHT LINES, INC. (Notes to Financial Statements)

Write-Off of Operating Rights

The Motor Carrier Act of 1980 (the "Act") has the practical effect of making existing interstate operating rights worthless. Because such rights can now be obtained by carriers from the Interstate Commerce Commission (ICC) very easily and with minimal expense they no longer have value. Before the Act became law, the operating rights had significant

value because it was very difficult for competing carriers to obtain new operating rights. Murphy Motor Freight Lines, Inc. and other carriers invested large sums of money to purchase operating rights and now, since there is no market for the rights, they are valueless. The FASB also recognized this economic loss and in December 1980 issued Statement of Financial Accounting Standards No. 44 requiring a complete write-off in 1980 of the unamortized costs of intangible assets that represent money paid for operating rights. Accordingly, the Company has written off the \$3,538,000 unamortized cost of operating rights in 1980 as an extraordinary item. The Company plans to take a deduction of \$3,807,000 (including \$269,000 of amortization in prior years) for the write-off on its 1980 tax return and thereby attempt to recover taxes paid in prior years by use of the carryback principle whereby present losses can be carried back to offset earnings in earlier years. However, pursuant to ICC rules, the Company has not recorded the tax benefit of the write-off in the financial statements.

RLC CORP. (Notes to Financial Statements)

Extraordinary Charge

As a result of the Motor Carrier Act of 1980, which was enacted on July 1, 1980, the motor carrier operating rights of the Company have become valueless in the opinion of Management. Accordingly, at September 30, 1980, the previous carrying value of such operating rights of \$10,484,000 was written-off as an extraordinary charge, net of anticipated tax benefits. The Company expects that the deductibility of the write-off for income tax purposes will eventually be sustained and plans to take any action necessary to that end.

T.I.M.E.-DC, Inc. (Accounting Policies Footnote)

As a result of the Motor Carrier Act of 1980 enacted on July 1, 1980, the operating rights of the Company became valueless. Accordingly, the previous carrying value of such operating rights of \$8,313,000 was written off as an extraordinary item. The trucking industry is seeking federal legislation to allow for an income tax deduction for this write-off and, accordingly, any tax benefits will be recognized when determinable. Previously, operating rights were not being amortized as substantially all of these rights were acquired prior to November, 1970 and, in the opinion of management, were not decreasing in value.

MIDWESTERN DISTRIBUTION, INC. (Notes to Financial Statements)

Extraordinary Item--Write-Off of Motor Carrier Operating Rights

As a result of the Motor Carrier Act of 1980, which was enacted July 1, 1980, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 44--Accounting for Intangible Assets of Motor Carriers. This statement requires the unamortized costs of motor carrier operating rights to be charged to income as an

(continued)

extraordinary item. Accordingly, at December 27, 1980, the carrying value of such operating rights of \$1,640,154 and deferred charges of \$924,447 representing costs incurred in filing applications for additional operating rights that had not been granted were written off as an extraordinary charge. A related income tax benefit, approximately \$1,200,000, was not recognized because of the uncertainty with respect to the deduction of such for income tax purposes.

Current liabilities

Captions used to describe current liabilities generally fell within the following categories: accounts payable, accrued expenses, salaries and wages payable, taxes other than income taxes, claims payable, federal income taxes payable, and current portion of long-term debt. The number of lines used to describe current liabilities ranged from 4 to 12. The average number of line items included in current liabilities was seven.

Accounts payable and accrued expenses

Current liabilities for trade accounts payable, interline accounts payable, withholding taxes, salaries and wages, and taxes other than income taxes were classified under a variety of captions. Table 18 indicates a general caption heading with the number of reports in which it appeared.

TABLE 18. ACCOUNTS PAYABLE AND ACCRUED EXPENSES CAPTIONS

	<u>No. of Surveyed Companies</u>		<u>No. of Surveyed Companies</u>
Accounts payable, trade		Salaries and wages, accrued	
accounts payable, or		wages, or caption referring	
similar caption con-		to wages	22
taining accounts pay-		Accrued taxes, taxes other	
able	40	than income taxes, or similar	
Accrued expenses, accrued		caption not including income	
liabilities, or other		taxes	13
liabilities	35	Notes payable	2

EXAMPLES Accounts payable and accrued expenses**IU INTERNATIONAL CORPORATION**
(Balance Sheet)

	1980	1979
	(In Thousands)	
Current liabilities		
Notes payable	\$ 69,051	\$ 83,296
Accounts payable--trade	93,215	104,659
Income taxes	50,168	45,790
Long-term debt--current maturities	43,915	39,223
Other current and accrued liabilities	163,572	149,726
Total current liabilities	<u>419,921</u>	<u>422,694</u>

THE BEKINS COMPANY
(Balance Sheet)

	1980	1979
	(Dollars In Thousands)	
Current liabilities		
Short-term borrowings	\$ 5,280	\$17,696
Accounts payable	8,819	8,951
Accrued expenses and other liabilities	22,630	23,612
Taxes on income	988	634
Current portion of long-term debt	2,782	2,917
Current portion of obligations under capital leases	292	275
Total current liabilities	<u>40,791</u>	<u>54,085</u>

BANNER INDUSTRIES, INC.
(Balance Sheet)

	1980	1979
Current Liabilities		
Short-term notes payable	\$ 1,384,400	\$ 4,981,000
Current maturities of long-term debt	3,169,173	1,917,421
Accounts payable	16,436,349	18,564,981
Accrued salaries and wages	7,410,101	6,687,121
Other accrued expenses	4,749,669	3,760,338
Accrued taxes on income	570,000	150,000
Total current liabilities	<u>\$33,719,692</u>	<u>\$36,060,861</u>

TRI-STATE MOTOR TRANSIT CO.
(Balance Sheet)

	1980	1979
Current Liabilities		
Accounts payable	\$ 4,682,717	\$ 5,664,355
Federal and state income taxes	1,060,143	920,541
Public liability, property damage and other claims	1,210,543	937,995
Dividends payable	286,257	282,361
Accrued expenses		
Payroll and amounts due lease operators	3,686,801	2,967,633
Taxes other than income	792,160	479,283
Interest	370,656	252,712
Current maturities of long-term debt	2,235,350	1,599,014
Total Current Liabilities	<u>14,324,627</u>	<u>13,103,894</u>

Claims payable

Many motor carriers are self-insured to a specific dollar limit for losses incurred as the result of cargo loss and damage, workers' compensation, and property damage and public liability (related to use of revenue equipment on highways). The general method or methods followed to accrue the aforementioned liabilities are:

Cargo Loss and Damage Claims Under Interstate Commerce Commission regulations, a shipper has up to nine months after shipment in which to file a claim of this type. Generally, a liability is accrued for claims received and not processed at the balance sheet date. In addition, an amount is usually accrued for unknown claims not received at the balance sheet date either by recording claims occurring prior to the balance sheet date that are received during a four to six week period subsequent to the balance sheet date or by providing a liability based on historical experience factors.

Workers' Compensation Claims This liability is generally accrued based on claims filed, with the liability for unsettled claims being estimated based on individual situations.

Property Damage and Public Liability Claims Generally, the liability is based on the estimated settlement for each known accident.

Overcharged Claims This accrual is usually based upon a percentage of revenue. The percentage factor is determined based on historical experience.

Amounts accrued utilizing the above criteria are in compliance with FASB Statement No. 5, "Accounting for Contingencies." The two conditions that must be met in order to accrue an estimated loss from a contingency under Statement No. 5 are:

1. Information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the balance sheet date. It is implicit in this condition that it must be probable that one or more future events will occur confirming the fact of the loss.
2. The amount of loss can be reasonably estimated.

The terminology used to describe the aforementioned claims (self-insurance) could be misleading to those not familiar with the motor carrier industry. Generally, such amounts represent an accrual for an estimated or known liability for claims relating to losses that occurred prior to the balance sheet date. Of the 27 companies that mentioned accruals for this type of loss, 85 percent used the term "claims" to describe the liability. The remaining 15 percent referred to the accruals with the term "self-insurance" or similar terminology.

Most reports in the survey disclosed claims payable. This includes the various estimated liabilities for cargo loss, public liability, property damage, personal injury loss, insurance adjustments and overcharge claims. The disclosure of claims payable is summarized in Table 19.

For those reports disclosing the dollar amount in a separate category on the balance sheet, Table 20 indicates how the liability for such claims was classified.

TABLE 19. CLAIMS PAYABLE DISCLOSURE

TABLE 20. CLASSIFICATION OF LIABILITY FOR CLAIMS

	No. of Surveyed Companies		No. of Surveyed Companies
Dollar value shown as a separate category on the balance sheet	23	Entire amount as a current liability	15
Described only in a foot- note	4	Portion expected to be paid within one year as a current liability with balance shown as noncurrent	9
Not present or not dis- closed	<u>13</u> <u>40</u>	Entire amount as a noncurrent liability	2
		Described in footnote only-- current vs. noncurrent not disclosed	1
		Not present or not disclosed	<u>13</u> <u>40</u>

EXAMPLES Claims payable**CONSOLIDATED FREIGHTWAYS, INC.**
(Balance Sheet)

	1980	1979
	(In Thousands)	
Current Liabilities		
Accrued claims cost	\$35,163	\$31,180
Noncurrent Liabilities		
Deferred Credits and Other Liabilities	\$21,723	\$20,441
(Accounting Policies Footnote)		
Accrued Claims Cost		

The Company provides for the uninsured cost of property, casualty and liability claims. Such cost is charged to income each year based on historical claims experience and covers both filed unpaid claims and unfiled claims relating to operations conducted through December 31, 1980. The obligations for claims which are not expected to be paid within one year are classified under deferred credits and other liabilities in the accompanying consolidated balance sheets.

CAROLINA FREIGHT CARRIERS CORPORATION
(Balance Sheet)

	1980	1979
Current Liabilities		
Claims payable	\$3,203,526	\$3,160,616
(Accounting Policies Footnote)		

Claims payable reflect the Company's estimated cost of uninsured claims incurred but not paid prior to year-end for cargo loss and damage, bodily injury and property damage, workers' compensation and non-contractual employee medical expenses.

Accrued maintenance

Some motor carriers accrue maintenance cost on major components of revenue equipment to provide a measure of impairment of an asset not accounted for under depreciation methods required by the regulatory agency. Such accruals are usually classified as other noncurrent liabilities on the balance sheet. A brief discussion of the methodology for this accounting treatment follows:

Certain equipment manufacturers claim the economic life of a tractor, in terms of miles, is considerably in excess of 1,000,000 miles. However, to obtain this life, certain major components (engine, transmission and differential) will have to be rebuilt in order to function as long as the

CHEMICAL LEAMAN CORPORATION
(Balance Sheet)

	1980	1979
Current Liabilities		
Estimated cargo loss and damage claims	\$1,818,000	\$1,682,000

(Notes to Financial Statements)

Commitments and Contingent Liabilities

Commitments to purchase revenue equipment and to purchase real estate and remodel existing buildings amounted to \$1,298,000 and \$1,012,000, respectively, at December 31, 1980.

The Company is self-insured for the first \$50,000 per occurrence for public liability and property damage, for the first \$25,000 per occurrence for cargo loss and for the first \$50,000 per occurrence for hospitalization of full-time salaried employees and their families. Also, the Company is fully self-insured for collision losses.

Based on an understanding with the New Jersey Department of Environmental Resources, the Company agreed to conduct tests to evaluate any possible existence and source of ground water contamination at its Bridgeport, New Jersey terminal. Management believes that corrective measures, if any, will not have a material adverse effect on the Company's financial position.

After consultation with legal counsel, management is of the opinion that various claims and litigation currently pending will not materially affect the Company's financial position.

basic tractor. For example, an over-the-road tractor might require a major engine overhaul (out of frame rebuild) at approximately 300,000 miles. If the economic life of the tractor to a motor carrier is (stated in terms of miles rather than years) 600,000 miles, it is obvious that one engine rebuild will be required. As the cost to rebuild an engine is determinable, it is relatively easy in this example to determine the additional cost per mile for this component (engine) to obtain a life of 600,000 miles (i.e., engine rebuild cost estimated at \$3,000 divided by 600,000 miles equals \$.005 per mile). The additional cost per mile is accrued based upon those miles incurred by unit, thereby matching costs with revenues earned in the same period as each is generated. When the engine is rebuilt, the cost is charged against the accrued maintenance for that vehicle.

Accordingly, motor carriers that normally expect to utilize tractors in excess of a 300,000 mile life must account for the additional costs necessary to maintain major components over the expected life of the tractor. The method described above (on a period cost per mile basis), related to accrued maintenance expense, provides for major component maintenance costs to remain constant throughout the tractor life. Some carriers recognize the cost of rebuilding a major component at the time of repair, which may fail to allocate appropriate costs to the preceding period, permitting fluctuations in repair expenses and may result in lack of comparability in financial reporting. Other carriers may elect to amortize the cost of a major component replacement over the remaining life with no allocation to the preceding period.

EXAMPLES Accrued maintenance

COASTAL INDUSTRIES, INC. (Accounting Policies Footnote)

Equipment Repairs

The Corporation provides for the costs of certain anticipated recurring major repairs on tractors based on the estimated useful life of specific components in order to more properly match revenue and expense. See Note E.

(Notes to Financial Statements)

Note E--Other Liabilities

Other liabilities consist of the following:

	1980	1979
Deferred income taxes	\$1,757,313	\$1,039,313
Equipment repairs	739,045	596,790
Insurance claims	256,752	352,700
	<u>\$2,753,110</u>	<u>\$1,988,803</u>

ROADWAY EXPRESS, INC. (Balance Sheet)

December 31,
1980 1979
(dollars in thousands)

Other Liabilities

Future equipment repairs \$16,252 \$11,662

(Accounting Policies Footnote)

Other Liabilities

Future equipment repairs is an accrual for estimated costs of anticipated major repairs on intercity tractors. Freight and casualty claims payable after one year represent the portion thereof not covered by insurance.

TRANSCON LINES (Accounting Policies Footnote)

Property and Depreciation

Property is depreciated on a straight-line basis over the estimated useful lives of the assets. Operating equipment excludes the cost of tires, which is carried as a prepaid expense and amortized on a mileage basis.

The future cost of major equipment repairs on line-haul tractors is estimated and charged to expense on a mileage basis. All other maintenance and repairs are charged to expense as incurred.

Current portion of long-term debt

Included in this caption was all debt required to be paid within the next fiscal year. It included, for example, current portion of notes payable, equipment obligations, real estate mortgages and capitalized leases. The most common method of disclosure was a separate category or separate line item under current liabilities.

EXAMPLES Current portion of long-term debt

NEW PENN MOTOR EXPRESS, INC. (Balance Sheet)

	1980	1979
Current liabilities		
Current maturities of long-term debt	\$152,500	\$100,431

REFRIGERATED TRANSPORT CO., INC. (Balance Sheet)

	1980	1979
Current liabilities		
Current maturities of long-term debt (note 2)	\$135,000	\$108,000

(Accounting Policies Footnote)

2. Long-Term Debt

Long-term debt is summarized below:

	1980	1979
Borrowed under the terms of a 10% Note Purchase Agreement (see below)	\$10,000,000	\$10,000,000
Borrowed under the terms of a Bank Revolving Credit Agreement (see below)	4,000,000	2,500,000
Real estate mortgage note bearing interest of 10% payable in monthly installments of \$2,000 including interest to 1993	164,000	170,000
Other	334,000	383,000
Total long-term debt	14,498,000	13,053,000
Less current maturities of long-term debt	135,000	108,000
Long-term debt--net of current maturities	<u>\$14,363,000</u>	<u>\$12,945,000</u>

The aggregate annual maturities of the above debt for the next five years are as follows:

Year	Amount
1981	\$135,000
1982	146,000
1983	895,000
1984	353,000
1985	847,000

The annual maturities shown above do not include any payments under the Bank Revolving Credit Agreement as it is expected that property additions made in the future will maintain the borrowing base above the minimum required under the terms of the Agreement.

Long-term debt

Many forms of long-term debt were included in this caption. Some of these represented equipment obligations, real estate mortgages, bank notes, revolving credit agreements and capitalized leases. The primary caption used on the balance sheet was the one-line caption "long-term debt." Most of these items included a reference to a footnote in which the details of the long-term debt were then explained.

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EXAMPLES Details of long-term debt disclosed in footnote

RYDER SYSTEM, INC.
(Balance Sheet)

	1980	1979
	(Thousands of dollars)	
Current Liabilities		
Long-term debt due within one year (exclusive of equipment obligations) (note 7)	\$ 2,424	2,359
Equipment obligations due within one year (note 7)	22,753	22,788
Noncurrent Liabilities		
Long-term debt, less amount due within one year (note 7)	739,000	714,323
(Notes to Financial Statements)		
(7) Long-Term Debt		
Long-term debt consists of (in thousands):		
	1980	1979
Equipment obligations:		
Borrowings under U.S. revolving loan agreement (a)	\$ 16,000	44,000
U.S. commercial paper (a)	12,894	41,435
7.8% to 12.25% collateral trust debentures, due 1982 to 1998 (a and b)	338,610	342,435
9.25% to 13.75% senior notes, due 1985 to 2000 (a and c)	253,000	151,250
7% to 14% equipment notes payable in installments through 1986, secured by revenue earning equipment with a net book value of \$66,782 at December 31, 1980	63,995	74,274
Other loans (d)	25,160	29,657
Capitalized vehicle leases	3,227	3,934
Total equipment obligations	<u>712,886</u>	<u>686,985</u>
Other obligations:		
6.5% to 11.5% real estate mortgages with final maturities in 2003, secured by land and buildings having a net book value of \$89,404 at December 31, 1980	48,994	49,046
5% to 12% notes payable with final maturities in 1998, partially secured by other equipment having a net book value of \$682 at December 31, 1980	2,297	3,439
Total other obligations	<u>51,291</u>	<u>52,485</u>
Total long-term debt	<u>764,177</u>	<u>739,470</u>

	1980	1979
Less amount due within one year:		
Equipment obligations (b and e)	22,753	22,788
Other long-term debt	<u>2,424</u>	<u>2,359</u>
Long-term debt due within one year	25,177	25,147
Long-term debt due after one year	<u>\$739,000</u>	<u>714,323</u>

(a) The U.S. revolving loan agreement, the U.S. commercial paper, the collateral trust debentures and the senior notes are unsecured. Upon specified notice by the lead bank under the U.S. revolving loan agreement, these obligations may become secured by revenue earning equipment and prepaid tires having a net book value of approximately \$939 million at December 31, 1980. At the option of the lead bank or the company, the U.S. revolving loan may be subject to declining loan ceilings upon specified notice and made repayable over a term of five years.

Interest on the U.S. revolving loan is at prime, except that it will increase to a maximum of 1% above prime in the fifth year and thereafter if the loan is made subject to declining loan ceilings, and 1/4 of 1% above prime if the company fails to operate below a specified debt to net worth ratio, as defined. The interest rate on the U.S. revolving loan agreement was 21.5% and 15.25% at December 31, 1980 and 1979, respectively. The weighted average interest rate for outstanding U.S. commercial paper was 20.3% and 14.6% at December 31, 1980 and 1979, respectively.

The company pays a fee of 5% of the prime rate on the total U.S. revolving loan commitment and a fee of 1/2 of 1% per annum on the unused portion of such commitment. The portion available for use, net of \$13 million which supported the company's outstanding U.S. commercial paper, was \$175 million at year-end 1980. The company classifies both the U.S. revolving loan and the U.S. commercial paper as long-term equipment obligations based upon the terms of the U.S. revolving loan agreement.

There were no formal compensating balance requirements during 1980 and 1979 and there were no cash balances subject to withdrawal restrictions. However, the company has informally agreed to maintain average balances equal to a percentage of the amount borrowed. Such average compensating balances are based on bank-collected funds. The amount of bank-collected funds met these agreed-upon compensating balances in 1980 and 1979.

- (b) The following information is provided regarding the collateral trust debentures (dollars in thousands):

	SERIES						
	A	B	C	D	E	F	G
Principal outstanding:							
December 31, 1980	\$13,306	18,298	40,006	52,000	40,000	100,000	75,000
December 31, 1979	\$16,336	20,017	43,332	56,000	40,000	100,000	66,750
Interest rate	11.5%	8.125%	7.8%	10.0%	9.75%	9.25%	12.25%
Maturity date	7/1/90	5/1/92	5/1/93	5/15/94	5/15/82	4/1/98	12/15/86
Date of optional redemption	Current	5/1/82	5/1/83	5/15/84	5/15/81	4/1/88	12/15/84
Redemption price as a percentage of par value:							
At date of optional redemption	105.45	103.61	103.58	104.74	100.00	104.38	102.00
At December 31, 1980	105.45	104.41	104.77	106.84	None	108.28	None
Sinking fund requirements commence	Current	Current	Current	Current	None	4/1/84	None
Annual sinking fund requirements	\$ 2,333	1,667	3,334	4,000	None	6,667	None

The company has the option to redeem the Series B, C, D and F debentures at any time before the dates of optional redemption, provided that such redemptions are not made from or in anticipation of borrowings. In 1980, \$8,250,000 of the Series G debentures were delivered pursuant to delayed delivery contracts negotiated in 1979.

During 1980, the company purchased in the open market collateral trust debentures in aggregate face amounts of \$12.1 million for various sinking fund requirements, which included \$9.7 million applicable to 1981. The current portion of equipment obligations has, therefore, been reduced by this amount.

- (c) Senior notes are summarized as follows (dollars in thousands):

	9.25%	9.5%	10.375%	12.45%	13.75%
Principal outstanding:					
December 31, 1980	\$60,000	50,000	100,000	10,000	33,000
December 31, 1979	\$60,000	50,000	41,250	-	-
Maturity date	10/1/97	2/1/94	1/15/00	3/15/85	3/31/96
Installments commence	10/1/83	2/1/85	1/15/86	3/15/84	3/31/87
Annual installment	\$ 3,850	5,000	6,400	5,000	5,000
Final payment	\$ 6,100	5,000	10,400	5,000	5,000
Prepayment price as a percentage of par value	107.79	108.82	110.375	None	113.75*

*Beginning March 31, 1981.

- (d) Other loans consist primarily of Canadian and United Kingdom revolving loans, commercial paper issued in Canada, and a five-year Canadian term loan. The weighted average interest rates on these borrowings were 15.4% and 14.9% at December 31, 1980 and 1979, respectively. There are no compensating balance requirements. The unused commitments, for which the company pays commitment fees of 1/2 of 1% per annum, were approximately \$14 million at December 31, 1980.
- (e) Equipment obligations due within one year consist of the current year's required sinking fund payments, the current portion of equipment notes and capitalized vehicle leases plus the amount by which total equipment obligations, excluding equipment notes and capitalized vehicle leases, exceed the borrowing bases (a percentage of the

(continued)

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net book value of the specified assets) after deducting related estimated depreciation for the ensuing year. Actual required payments, other than on equipment notes and capitalized vehicle leases, will be limited to the amount, if any, by which the equipment obligations exceed the borrowing bases at the end of any month.

- (f) Long-term debt maturities (including sinking fund requirements) during the five years subsequent to December 31, 1980 are as follows (in thousands):

1981	\$25,177
1982	71,527
1983	34,842
1984	39,028
1985	39,088

- (g) The amounts of interest capitalized were \$2,156,000 in 1980, \$721,000 in 1979 and \$410,000 in 1978.

- (h) The company has complied with the restrictions and limitations required under the terms of the various loan agreements. Of the company's long-term debt agreements, the U.S. revolving loan agreement is the most restrictive as to the payment of cash dividends. As of December 31, 1980, approximately \$48 million of consolidated retained earnings was available for payment of cash dividends.

CONSOLIDATED FREIGHTWAYS, INC. (Balance Sheet)

	1980	1979
	(Dollar amounts in thousands)	
Current Liabilities		
Current maturities of long-term debt (Note 2)	\$ 3,070	\$ 1,642
Long-Term Debt (Note 2)		
Commercial paper	-	24,500
10% promissory notes, due 1983 through 1985	30,000	30,000
5-3/4% and 9-7/8% real estate notes, due through 1990	5,750	6,700
7.95% sinking fund debentures, due through 1996	18,750	20,000
6-1/4% to 8-1/2% installment sales and lease contracts under industrial revenue bonds, due 1988 through 2005	36,845	33,595
Other debt, at various rates, due through 1987	5,653	593
	<u>96,998</u>	<u>115,388</u>

(Notes to Financial Statements)

2. Long-Term Debt

The Company may issue commercial paper up to a maximum of \$50 million. The commercial paper outstanding at December 31, 1979 was classified as long term because management intended to refinance it using existing long-term credit agreements.

The Company has a long-term revolving credit agreement under which \$75 million may be borrowed. Interest on any amounts borrowed is at 1/2% over the prime rate, and a fee of 3/8% is charged on the unused portion of the commitment. There are no compensating balances required. No amounts were outstanding under this agreement at December 31, 1980 and 1979.

One of the Company's Canadian subsidiaries has a \$10 million (Canadian) revolving credit agreement with a Canadian bank. Interest on any amounts borrowed is at the prime rate. This agreement does not require a commitment fee or compensating balances.

The aggregate annual maturities and sinking fund requirements of long-term debt for each of the next five years ending December 31 are as follows: 1981, \$3,070,000; 1982, \$3,130,000; 1983, \$13,022,000; 1984, \$12,903,000; and 1985, \$12,253,000.

PEPSICO, INC. (Balance Sheet)

	1980	1979
	(in thousands)	
Current Liabilities		
Notes payable (including current installments on long-term debt and capital lease obligations)	\$119,144	\$ 81,033
Long-Term Debt	621,563	456,235
(Notes to Financial Statements)		
Notes Payable and Long-Term Debt		
Notes payable at December 27, 1980 and December 29, 1979 comprised the following:		
	1980	1979
	(in thousands)	
Current maturities on long-term debt and capital lease obligations	\$ 14,940	\$ 19,818
Other notes payable	104,204	61,215
	<u>\$119,144</u>	<u>\$ 81,033</u>
At December 27, 1980 and December 29, 1979, long-term debt (less current maturities) consisted of:		
	1980	1979
	(in thousands)	
Commercial paper, bank loans and notes (1980--15-3/4%; 1979--13-1/2%)	\$210,000	\$106,000
10-1/8% notes due 1986	150,000	-
9-1/4% notes due 1984	100,000	100,000
8-1/4% notes due 1985	100,000	100,000
8-5/8% notes due 1981	-	75,000
4-3/4% convertible subordinated debentures (\$2,500,000 due in 1995, with balance due in 1996)	4,483	8,364
Other	57,080	66,871
Total long-term debt	<u>\$621,563</u>	<u>\$456,235</u>

At December 27, 1980 PepsiCo had revolving credit agreements with a group of commercial banks, providing for loans up to a maximum of \$325 million, maturing January 2, 1984, which supports the classification of commercial paper, bank loans and 8-5/8% notes due 1981 as long-term debt.

The amounts of long-term debt maturing after 1981 are as follows: 1982, \$5,101,000; 1983, \$3,870,000; 1984, \$312,805,000; 1985, \$104,215,000; and subsequently, \$195,572,000.

At December 27, 1980, \$170 million of unused lines of credit with U.S. banks were also available for use by PepsiCo.

The debt agreements to which PepsiCo is a party include various restrictions, none of which is currently significant to PepsiCo.

Shareholders' equity

Two of the forty surveyed companies had more than one class of common stock outstanding. Nine of the balance sheets indicated that preferred shares were also outstanding. Most shareholders' equity sections included a brief description of the types of stock, such as par or stated value per share, and the number of shares authorized and outstanding. Separate line items were on all balance sheets for the components of shareholders' equity except for one report that disclosed shareholders' equity as a one-line item on the balance sheet and detailed the components in a footnote.

EXAMPLES Details of shareholders' equity

RLC CORP.
(Balance Sheet)

	September 30, 1980	1979
Shareholders' Equity	\$104,430,000	\$96,009,000

(Notes to Financial Statements)

Shareholders' Equity

	Stated Value of Preferred Stock	\$1 Par Common Stock	Capital in Excess of Par or Stated Value	Retained Earnings
Balance at September 30, 1978	\$197,000	\$ 7,839,000	\$33,977,000	\$33,162,000
Net earnings				27,541,000
Dividends on preferred stock				(132,000)
Dividends on common stock				(4,562,000)
Conversion of preferred stock	(25,000)	154,000	(129,000)	
Exercise of stock options		44,000	82,000	
3 for 2 common stock split		3,918,000	(3,928,000)	
Repurchase of common stock		(229,000)	(1,900,000)	
Balance at September 30, 1979	172,000	11,726,000	28,102,000	56,009,000
Net earnings				14,812,000
Dividends on preferred stock				(84,000)
Dividends on common stock				(6,338,000)
Conversion of preferred stock	(14,000)	11,000	3,000	
Exercise of stock options		9,000	22,000	
Balance at September 30, 1980	\$158,000	\$11,746,000	\$28,127,000	\$64,399,000

All shares of common stock repurchased during 1979 were subsequently cancelled during that year, except for those shares reissued upon exercise of stock options.

(continued)

60 Balance Sheet

The Company is authorized to issue 20,000,000 shares of its \$1 Par Value Common Stock and 1,000,000 shares of Preferred Stock. The preferred shares are without par value, with terms and conditions of each issue as determined by the Board of Directors. At September 30, 1980, outstanding preferred shares consisted only of 79,028 shares of the originally issued 101,377 shares of the Series C \$1 Dividend Cumulative Convertible Preferred Stock, each share of which has a stated value of \$2; has a redemption (at the option of the Company only) and a liquidating value of \$30; has a voting right of .7 of a share of common stock; and is convertible into 1.575 shares of common stock. The excess of liquidation value over stated value of the preferred shares (\$2,213,000) places no restrictions on the Retained Earnings or Capital in Excess of Par or Stated Values of the Company.

Under the Company's current stock option plan, options to purchase common stock of the Company may be granted to officers and key employees at not less

than 100% of the fair market value at the date of grant. Changes in outstanding common stock options are summarized as follows:

	Granted and Outstanding	
	Shares	Prices
Balance at September 30, 1978	171,394	\$ 1.33-\$12.25
Granted	20,000	10.00
Exercised	(43,916)	1.33- 7.11
Cancelled and Expired	(5,625)	7.11
Balance at September 30, 1979	141,853	1.39- 12.25
Granted	3,750	11.38
Exercised	(9,121)	1.39- 7.11
Cancelled and Expired	(7,875)	1.39- 7.11
Balance at September 30, 1980	128,607	1.78- 12.25

At September 30, 1980, options for 47,749 shares are exercisable at per share prices ranging from \$1.78 to \$12.25, and 51,800 shares are available for grant under the Company's stock option plan.

PEPSICO, INC. (Balance Sheet)

	1980	1979
	(dollars in thousands)	
Shareholders' Equity		
Capital stock, par value 5¢ per share; authorized 135,000,000 shares; issued: 1980--94,916,223; 1979--94,601,214 shares	\$ 4,746	\$ 4,730
Capital in excess of par value	225,915	219,951
Retained earnings	1,293,164	1,134,060
Less cost of repurchased shares: 1980--3,639,701; 1979--3,647,000	(94,902)	(95,092)
	1,428,923	1,263,649

(Notes to Financial Statements)

Capital Stock and Capital in Excess of Par Value

The changes in capital stock and capital in excess of par value are summarized below:

	Shares	Amount	Capital in Excess of Par Value	Repurchased Shares
		(dollars in thousands)		
Balance at December 31, 1977	91,794,150	\$4,590	\$164,541	--
Conversion of debentures and notes	751,362	38	15,814	--
Exercise of stock options and warrants	529,591	26	10,996	--
Balance at December 30, 1978	93,075,103	4,654	191,351	--
Conversion of debentures and notes	1,220,364	61	25,774	--
Exercise of stock options and warrants	305,747	15	2,826	--
Shares repurchased	(3,647,000)	--	--	\$(95,092)
Balance at December 29, 1979	90,954,214	4,730	219,951	(95,092)
Conversion of debentures and other	190,800	9	3,864	190
Exercise of stock options	131,508	7	2,100	--
Balance outstanding at December 27, 1980	91,276,522	\$4,746	\$225,915	\$(94,902)

Shares reserved at December 27, 1980 were as follows:

Incentive plan	4,137,606
Stock option plans	967,143
Convertible subordinated debentures (at \$21.17 per share)	211,778
	<u>5,316,527</u>

Under PepsiCo's stock option plans, during 1980 options for 131,508 shares were exercised at prices ranging from \$2.89 to \$24.63 per share. Options for 142,997 and 529,591 shares were exercised at prices ranging from \$2.89 to \$24.63 and from \$2.89 to \$28.88, in 1979 and 1978, respectively.

At December 27, 1980, December 29, 1979 and December 30, 1978 there were outstanding options for the purchase of 1,323,184, 1,243,383 and 1,511,697 shares, respectively, at prices ranging from \$2.89 to \$28.88. At December 27, 1980, options for 249,736 shares were exercisable.

Options were granted during 1980 for 602,070 shares at option prices ranging from \$23.88 to \$24.13. Options have been cancelled as follows: 1980--79,694; 1979--125,317; 1978--278,957.

In 1979, stock appreciation rights ("SAR's") were granted with respect to certain stock options. Each SAR entitles an optionee to receive, in cash or shares of PepsiCo capital stock (as determined by the Compensation Committee of PepsiCo's Board of Directors), the excess, if any, of the fair market value of a share of capital stock on the date the SAR is exercised, less the option exercise price. Options are automatically cancelled upon exercise of the related SAR. SAR's expire on the same dates as the related options. At December 27, 1980, 220,256 SAR's were outstanding and exercisable.

In 1979, PepsiCo shareholders approved the 1979 Incentive Plan which carried forward the principal features of the 1972 Performance Share Plan and replaced the 1975 Stock Option Plan with an incentive stock unit program. Under the 1979 Plan the Compensation Committee of the Board of Directors may award performance shares (each unit being limited to the market value of a share of PepsiCo capital stock on date of grant), and an equal number of stock options to purchase capital stock to senior management employees, and may award incentive stock units, rather than options, to other management employees. Performance shares are not paid unless PepsiCo achieves stated cumulative growth rates in earnings per share over the four-year period following the award. Incentive stock units are rights to receive shares of capital stock or their value, which vest over a period of time, without payment of any amounts to PepsiCo or satisfaction of any performance objectives.

Payments for performance share units and incentive stock units may be made in cash or in capital stock, or a combination thereof, as the Committee decides. The aggregate number of shares of capital stock which may be delivered or purchased under the Plan may not exceed 4,000,000 shares. During 1980 and 1978, performance share units were awarded, of which 965,797 were outstanding at December 27, 1980. During 1980 and 1979, incentive stock units were awarded of which 227,427 were outstanding at December 27, 1980. The cost of awards under the 1972 Performance Share Plan and the 1979 Incentive Plan is being charged to income (\$8,787,000 in 1980, \$5,220,000 in 1979 and \$5,214,000 in 1978) over the applicable term of the award period.

SECTION F

Income Statement

The SEC established a centralized set of instructions in new Article 3 of Regulation S-X as part of its major revisions to reporting rules. The General Instructions as to Financial Statements in Article 3 of Regulation S-X require three years of statements of income in annual shareholder reports for companies with fiscal years ended after December 15, 1980.

Income statement title

A summary of titles used to describe the income statement is shown in Table 21. Of the companies surveyed, 30 presented separate statements of income and retained earnings. Ten of the reports combined the income statement with the retained earnings statement.

Operating revenue

Operating revenue includes freight revenue, leasing revenue, revenues from consolidated operations unrelated to motor carrier services, and other forms of revenue not specifically disclosed. Descriptions of operating revenue used by the companies included in the survey are summarized in Table 22.

The majority of the surveyed companies disclosing the components of operating revenues had substantial nonmotor carrier operations. This disclosure was most often set forth in a separate business segment information note to the financial statements.

TABLE 21. TITLES USED TO DESCRIBE
THE INCOME STATEMENT

	No. of Surveyed Companies
Statement of income	20
Statement of operations	10
Statement of earnings	9
Statement of net earnings	<u>1</u>
	<u>40</u>

TABLE 22. DISCLOSURE OF OPERATING
REVENUE

	No. of Surveyed Companies
Operating revenue listed as one number on the income statement	26
Component parts of operating revenue listed on the income statement	<u>14</u>
	<u>40</u>

EXAMPLE Detail of operating revenue**LEASEWAY TRANSPORTATION CORP.**
(Statement of Earnings)

	1980	1979	1978
	(Amounts in thousands)		
Revenues			
Specialized transportation	\$599,161	\$627,155	\$573,695
Vehicle leasing	275,861	244,016	191,925
Distribution services	68,834	66,050	55,905
	943,856	937,221	821,525

CONSOLIDATED FREIGHTWAYS, INC.
(Statement of Income)

	1980	1979	1978
	(In thousands)		
Revenues and Sales			
Motor carrier	\$ 982,982	\$ 890,145	\$ 805,897
Manufacturing	589,388	768,566	538,299
Air freight forwarding	81,234	61,257	41,935
	1,653,604	1,719,968	1,386,131

Revenue recognition

Twenty-three of the companies included in the survey disclosed their accounting policies regarding the method of recognizing carrier revenue. Table 23 summarizes these methods.

TABLE 23. METHODS USED TO RECOGNIZE CARRIER REVENUE

	No. of Surveyed Companies		No. of Surveyed Companies
Recognized on date freight is picked up, treatment of costs not disclosed	8	Recognized on date freight is picked up with anticipated costs accrued	2
Recognized on date of delivery	5	Recognized when freight leaves origin terminal	2
Recognized on percentage of completion	3		
Recognized on date freight is picked up with costs charged to period incurred	3		

EXAMPLES Revenue recognition**ARKANSAS BEST CORPORATION**
(Notes to Financial Statements)**Revenue Recognition**

Carrier operating revenues are recognized on the date the shipments are picked up from the customer.

MAYFLOWER CORPORATION
(Notes to Financial Statements)**Recognition of Operating Revenues**

The Company's principal subsidiary, which is primarily involved in used household goods moving, recognizes revenue and associated transportation costs when the order has been unloaded at the shipper's residence.

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TRANSCON LINES (Notes to Financial Statements)

Revenue Recognition

Operating revenues for freight in transit are recognized generally on a pro rata basis with the incurrence of the related transportation and delivery costs.

MURPHY MOTOR FREIGHT LINES, INC. (Notes to Financial Statements)

Revenue Recognition

Revenue is recognized on a percentage of completion basis in the financial statements and on date delivered for income tax purposes.

Operating expense format

Most companies surveyed used the natural classification format. This classification was frequently used by companies with significant noncarrier operations. The format for natural classification consists of the summation of all operating expenses and the presentation of only a total. Table 24 summarizes the various reporting formats of the surveyed companies.

LYNDEN TRANSPORT, INC. (Notes to Financial Statements)

Revenue Recognition

Transportation revenues are recognized on a percentage of completion basis. Revenue from freight transportation is based on tariffs approved by various regulatory authorities. Adjustments to revenue, arising from claims filed challenging the application of tariffs, are recorded when the validity and amounts of such claims are determined.

The Company reports earnings from long-term construction projects in progress on the percentage of completion method of accounting. Earnings are accrued based upon the ratio of costs incurred to estimated total costs. Costs include direct labor, direct materials and job related overhead. Estimated contract losses are recorded in total at the time they become evident.

TABLE 24. OPERATING EXPENSE FORMAT

	No. of Surveyed Companies
Natural classification	29
Activity classification	3
Other, primarily showed total operating expenses only	8
	<u>40</u>

EXAMPLE Operating expense format--natural classification

MCLEAN TRUCKING COMPANY
(Statements of Operations and Retained Earnings)

	1980	1979
Carrier Operating Expenses		
Wages, salaries, and employee benefits	\$409,340,694	\$328,763,022
Operation and maintenance	110,334,346	75,956,834
Operating taxes and licenses	16,796,085	14,575,699
Insurance and claims	16,015,584	13,882,282
Communications and utilities	8,260,536	6,376,212
Depreciation	21,330,045	17,571,498
Rents and purchased transportation	18,264,837	13,074,104
	<u>600,342,127</u>	<u>470,199,651</u>

EXAMPLE Operating expense format--activity classification

PRESTON TRUCKING COMPANY, INC.
(Statements of Income and Retained Earnings)

	1980	1979	1978
Operating expenses			
Line-haul	\$ 51,126,740	\$ 45,369,589	\$ 37,527,317
Pickup and delivery	46,165,826	44,829,474	42,176,757
Billing and collecting	3,220,280	3,174,536	3,113,782
Platform	28,223,229	27,148,384	25,025,484
Terminal	10,179,455	8,882,499	7,598,990
Maintenance	3,753,830	3,395,002	2,862,791
Traffic and sales	5,899,132	4,275,890	3,539,389
Insurance and safety	2,686,185	2,606,438	2,185,649
Depreciation	6,857,368	6,286,498	5,636,680
General and administrative	5,112,361	4,588,927	3,841,289
Total operating expenses	<u>163,224,406</u>	<u>150,557,237</u>	<u>133,508,128</u>

EXAMPLE Operating expense format--other

MIDWESTERN DISTRIBUTION, INC.
(Statement of Operations)

	1980	1979	1978
Cost and Expenses			
Operating expenses	\$72,801,183	\$62,714,733	\$52,263,282
Costs of equipment sales and service	4,266,991	3,980,010	11,742,489
Deferred gain on tractor sales, net	(195,334)	(348,014)	110,496
General and administrative expenses	3,964,491	3,064,974	2,524,709
Interest	1,634,370	1,728,101	1,685,439
	<u>82,471,701</u>	<u>71,139,804</u>	<u>68,326,415</u>

Sale of depreciable assets

A summary of the methods of disclosure made of gains or losses on sale of depreciable assets is shown in Table 25.

TABLE 25. SUMMARY OF DISCLOSURE OF SALE OF DEPRECIABLE ASSETS

	No. of Surveyed Companies
Included in operating income or expenses	15
Included in other income or expenses	15
Not present or not disclosed	<u>10</u>
	<u>40</u>

Of the 15 surveyed companies that included gains or losses on sale of depreciable assets in operating income or expenses, 11 showed the net gain or loss as a separate line item, while 4 adjusted depreciation expense.

EXAMPLES Sale of depreciable assets

BRIGGS TRANSPORTATION CO.
(Statement of Operations)

	1980	1979	1978
Other Deductions (Income)			
Interest expense	\$2,525,911	\$2,187,080	\$1,508,091
Gain on disposal of property and equipment	(663,423)	(683,887)	(350,304)
Interest income	(39,787)	(30,942)	(38,037)
Miscellaneous, net	(47,696)	(26,722)	108,260
	<u>1,775,005</u>	<u>1,445,529</u>	<u>1,228,010</u>

OVERSITE TRANSPORTATION COMPANY
(Statement of Income)

	1980	1979	1978
Operating expenses			
Salaries, wages and fringe benefits	\$131,709,000	\$124,376,000	\$106,336,000
Operating supplies and expenses	37,992,000	34,073,000	26,973,000
General supplies and expenses	7,949,000	7,051,000	5,953,000
Operating taxes and licenses	7,453,000	7,140,000	7,230,000
Insurance and claims	3,588,000	4,732,000	4,510,000
Communications and utilities	4,203,000	3,512,000	3,097,000
Depreciation	13,646,000	13,172,000	11,586,000
Revenue equipment rents and purchased transportation	858,000	1,467,000	896,000
Building and office equipment rents	1,433,000	1,392,000	1,223,000
Gain on disposition of revenue equip- ment	(641,000)	(758,000)	(844,000)
Miscellaneous expenses	394,000	606,000	852,000
	<u>208,584,000</u>	<u>196,763,000</u>	<u>167,812,000</u>

CAROLINA FREIGHT CARRIERS CORPORATION
(Statement of Earnings)

	1980	1979	1978
Operating Expenses--General Commodities			
Employee compensation--			
Linehaul	\$ 45,400,910	\$ 42,002,240	\$ 39,722,977
Pickup and delivery	39,693,062	34,845,927	31,340,895
Platform and terminal	43,149,761	36,366,136	31,359,348
Other	17,223,116	14,040,845	12,157,112
Total employee compensation	145,466,849	127,255,148	114,580,332
Fuel and fuel taxes	19,559,743	15,235,467	13,042,543
Tires, repair parts and other operating supplies	13,497,476	13,768,157	13,202,039
Operating taxes and licenses	2,555,185	2,529,398	2,298,652
Insurance premiums and claims	3,684,892	3,211,694	3,821,291
Communications and utilities	3,887,283	3,352,506	3,265,584
Depreciation and amortization, net of gain on disposition of operating assets (1980--\$88,958; 1979--\$445,344; 1978--\$332,916)	8,866,147	7,814,025	6,813,184
Equipment and building rents, including purchased transportation	7,068,426	5,218,627	5,304,713
General and other operating expenses	7,182,467	5,797,447	5,527,670
Total general commodities expenses	211,768,468	184,182,469	167,856,008

Depreciable asset trade-ins

A majority of the surveyed companies included gains and losses on trade-ins of revenue equipment in the statement of income. Table 26 summarizes the treatment of these gains and losses.

TABLE 26. TREATMENT OF GAINS AND LOSSES ON DEPRECIABLE ASSET TRADE-INS

	No. of Surveyed Companies
Included in statement of income	28*
Used as an adjustment of the basis of the replacement asset	2
Not present or not disclosed	<u>10</u>
	<u>40</u>

* Twenty-five of the twenty-eight reports did not specifically mention trade-ins but included a general comment that gains and losses are recognized upon the sale, retirement or other disposition of depreciable assets.

EXAMPLES Depreciable asset trade-ins**MURPHY MOTOR FREIGHT LINES, INC.**
(Accounting Policies Footnote)**Property and Equipment**

Facilities and equipment are depreciated by the straight-line method over estimated useful lives of 20 to 30 years for structures, 3-1/2 to 10 years for revenue and service equipment, and 5 to 10 years for furniture and office equipment. Leasehold improvements are amortized over the terms of the related leases or the useful lives of the improvements, if shorter.

On retirement or sale, the difference between the net book value of revenue equipment and the proceeds of the sale or trade-in allowance is charged or credited to earnings.

KENAN TRANSPORT CO.
(Accounting Policies Footnote)**Operating Property**

Operating property is recorded at cost. The cost of tires on revenue equipment is included in prepayments and amortized over the life of the tires.

Depreciation is computed on the straight-line method using lives of 5 to 8 years for revenue equipment, 25 to 40 years for buildings, 10 years for leasehold improvements, and 2 to 10 years for other equipment.

Maintenance and repairs are charged to operating expenses as incurred; renewals and improvements are capitalized. Upon disposition of property, the cost and the accumulated depreciation are removed from the accounts and any gain or loss is reflected as an adjustment of depreciation expense. Gains on trade-in of equipment of \$293,000 (1980), \$427,000 (1979) and \$311,000 (1978) are included in depreciation expense.

Interest expense

Interest expense was included as a nonoperating expense in all surveyed reports that distinguished between operating and nonoperating expenses.

YELLOW FREIGHT SYSTEM, INC.
(Accounting Policies Footnote)

Maintenance and repairs are charged to operations currently; replacements and improvements are capitalized in the property accounts. When revenue equipment is traded, the basis of the new equipment reflects any difference between the trade-in allowance and the basis of the old equipment. Upon sale or retirement of all other operating property, the cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in other non-operating income.

MAYFLOWER CORPORATION
(Accounting Policies Footnote)**Depreciation and Maintenance**

Depreciation of property and equipment is provided primarily by the straightline method at annual rates considered adequate to amortize the costs over the estimated useful lives of the assets. The lives used in computing depreciation during the periods were:

Buildings and improvements	20 to 40 years
Revenue equipment--tractors and trailers	5 to 8 years
Other operating equipment and improvements	4 to 10 years

Expenditures for maintenance and repairs are charged to income when incurred. Expenditures for betterments and major renewals are capitalized. The carrying amounts of major assets sold, retired, or otherwise disposed of and the related accumulated provisions for depreciation are eliminated from the accounts. Any resulting gain or loss, including that on equipment traded, is included in income.

EXAMPLES Interest expense

MID-AMERICAN LINES, INC. (Statement of Income)

	1980	1979	1978
Nonoperating (Income) Expenses			
Interest expense	\$766,495	\$716,535	\$ 586,822
Gains on disposition of properties	-	-	(101,814)
Other, net	(21,724)	(28,960)	180,441
Total nonoperating expenses	\$744,771	\$687,575	\$ 665,449

LEASEWAY TRANSPORTATION CORP. (Statement of Earnings)

	1980	1979	1978
	(Amounts in thousands)		
Other Expense (Income)			
Interest expense	\$41,721	\$38,119	\$27,126
Investment income	(6,093)	(6,935)	(5,233)
	35,628	31,184	21,893

BUCKHORN INC. (Statement of Operations)

	Year Ended December 31		
	1980	1979	1978
Other Income (Deductions)			
Other income, net of other deductions	\$ 79,362	\$ 346,827	\$ 181,777
Interest expense	(1,103,385)	(931,885)	(732,028)
Provision for deferred compensation agreements	(93,000)		(201,115)
	(1,117,023)	(585,058)	(751,366)

Income taxes

All reports surveyed disclosed federal income taxes on the income statement. Disclosure of federal income taxes included the current and deferred portions in all reports. This disclosure also included state income taxes in a number of reports. The methods of disclosure are shown in Table 27. ASR No. 149 requires certain additional disclosures relating to federal income tax expense for all financial statements filed with the SEC. Examples of such disclosures are included below.

TABLE 27. METHOD OF INCOME TAX DISCLOSURE

	No. of Surveyed Companies
Income taxes shown as one number on the income statement with footnote disclosure of components	27
Current and deferred shown on the income statement	<u>13</u>
	<u>40</u>

EXAMPLES Income tax disclosures

CAROLINA FREIGHT CARRIERS CORPORATION
(Statement of Earnings)

	1980	1979	1978
Earnings Before Income Taxes	\$10,040,009	\$6,790,119	\$6,473,093
Provision for Income Taxes	<u>4,381,457</u>	<u>2,861,000</u>	<u>2,890,000</u>
Earnings Before Extraordinary Item	5,658,552	3,929,119	3,583,093

(Notes to Financial Statements)

Income Taxes

The provision for income taxes consists of the
following--

	1980	1979	1978
	(Thousands)		
Payable currently--			
Federal	\$3,401	\$1,131	\$1,240
State	<u>513</u>	<u>305</u>	<u>299</u>
	3,914	1,436	1,539
Deferred taxes arising from--			
Accelerated depreciation	280	672	566
Prepaid tires expensed for tax purposes	40	126	272
Reserves not currently deductible	(21)	(50)	(202)
Revenue not currently taxable	474	73	120
Other, net	<u>(5)</u>	<u>104</u>	<u>87</u>
	768	925	843
Investment tax credit--			
Deferral	319	1,040	939
Amortization	<u>(620)</u>	<u>(540)</u>	<u>(431)</u>
	(301)	500	508
Total provision	<u>\$4,381</u>	<u>\$2,861</u>	<u>\$2,890</u>

The total provision for income taxes is 43.6% of earnings before income taxes and extraordinary item for 1980, 42.1% for 1979 and 44.6% for 1978. The variance from the statutory corporate tax rate of 46% in 1980 and 1979, and 48% in 1978 is due to the following items:

	1980	1979	1978
Statutory federal tax rate	46.0%	46.0%	48.0%
Increases (reductions) in taxes resulting from--			
Amortization of investment tax credit	(6.2)	(8.0)	(6.7)
State income taxes, net of federal tax benefit	3.2	3.2	3.1
Other items, net	.6	.9	.2
Actual tax rate	<u>43.6%</u>	<u>42.1%</u>	<u>44.6%</u>

YELLOW FREIGHT SYSTEM, INC.
(Statement of Income)

	1980	1979	1978
	(In Thousands)		
Income Before Income Taxes	\$34,045	\$34,463	\$73,055
Provision for Income Taxes (Note 2)	12,996	13,728	34,030
Income Before Extraordinary Item	<u>\$21,049</u>	<u>\$20,735</u>	<u>\$39,025</u>

(Notes to Financial Statements)

Note 2--Income Taxes

The total provision for income taxes was 38.2% of income before income taxes for 1980, 39.8% for 1979 and 46.6% for 1978. These rates differ from the statutory rate of 46% for 1980 and 1979 and 48% for 1978 primarily due to amortization of investment tax credits and the impact of state income taxes. The provision for income taxes consisted of the following:

	1980	1979	1978
	(In Thousands)		
Federal--			
Payable currently	\$ 3,985	\$(3,675)	\$11,654
Deferred taxes from--			
Accelerated depreciation	5,023	6,887	7,225
Claims and insurance accruals	(174)	(2,468)	(2,664)
Exploration costs	5,294	4,840	3,630
Pension costs	(533)	2,189	5,547
Revenue recognition	(721)	878	805
Prepaid tires	(918)	166	1,619
Other, net	298	1,262	1,050
Investment tax credits--			
Deferred	2,642	4,906	4,132
Amortization	(3,139)	(3,031)	(2,544)
Total Federal	<u>\$11,757</u>	<u>\$11,954</u>	<u>\$30,454</u>
State--			
Payable currently	908	798	2,107
Deferred	331	976	1,469
Total	<u>\$12,996</u>	<u>\$13,728</u>	<u>\$34,030</u>

Deferred income taxes result from deductions claimed for income tax purposes either in excess of or less than those recorded on the books. The investment tax credits have been deferred in the year property is placed in service and are being amortized to income over the service lives of the related property.

Deferred income taxes related to current assets and current liabilities, amounting to \$15,648,000 for 1980 and \$18,120,000 for 1979, are included in current liabilities in accrued and deferred income taxes.

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ATLAS VAN LINES, INC. (Statement of Operations)

	Year Ended December 31		
	1980	1979	1978
Income Before Income Taxes, Minority Interest and Extraordinary Item	\$6,867,860	\$4,431,101	\$2,944,096
Income Taxes	3,008,743	1,900,322	1,388,557
Income Before Minority Interest and Extraordinary Item	3,859,117	2,530,779	1,555,539

(Notes to Financial Statements)

Income Taxes

The components of income tax expense are summarized as follows:

	Year Ended December 31		
	1980	1979	1978
Current	\$2,867,351	\$1,908,982	\$1,318,157
Deferred	141,392	(8,660)	70,400
	<u>\$3,008,743</u>	<u>\$1,900,322</u>	<u>\$1,388,557</u>

The provision for federal income tax is reconciled to the amount computed by applying the statutory rate as follows:

	1980	1979	1978
Tax provision at statutory rate--46% (48% in 1978)	\$3,159,216	\$2,038,306	\$1,413,166
Investment tax credit utilized--net	(129,098)	(118,258)	(20,426)
Other, net	(21,375)	(19,726)	(4,183)
Income tax expense	<u>\$3,008,743</u>	<u>\$1,900,322</u>	<u>\$1,388,557</u>

TRI-STATE MOTOR TRANSIT CO. (Statement of Income)

	1980	1979	1978
Income Before Income Taxes	\$2,382,595	\$5,802,050	\$5,375,228
Provision for Income Taxes (Note 3)			
Current	881,000	2,819,000	2,782,000
Deferred	97,000	3,000	(162,000)
	<u>978,000</u>	<u>2,822,000</u>	<u>2,620,000</u>
Income Before Extraordinary Item	1,404,595	2,980,050	2,755,228

(Notes to Financial Statements)

Note 3: Income Taxes

The provision for income taxes differs from the amount of income tax determined by applying the applicable Federal income tax rates to pretax income ("income before income taxes") as a result of the following:

	1980		Year Ended December 31, 1979		1978	
	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income
Computed "expected" provision	\$1,096,000	46.0%	\$2,669,000	46.0%	\$2,580,000	48.0%
Increase (decrease) in taxes resulting from:						
State income taxes net of federal income tax benefit	90,000	3.8	274,000	4.7	258,000	4.8
Investment tax credits	(248,000)	(10.4)	(186,000)	(3.2)	(272,000)	(5.1)
Other	40,000	1.6	65,000	1.1	54,000	1.0
Actual provision	<u>\$ 978,000</u>	<u>41.0%</u>	<u>\$2,822,000</u>	<u>48.6%</u>	<u>\$2,620,000</u>	<u>48.7%</u>

Provision for deferred income taxes results from timing differences in the recognition of certain deductions for financial reporting purposes and for income tax purposes. The source of these differences and the tax effect of each are as follows:

	Year Ended December 31,		
	1980	1979	1978
Effect of using accelerated depreciation methods for income tax purposes	\$30,000	\$(10,000)	\$ (77,000)
Effect of timing differences in deduction of deferred compensation and bad debts	67,000	13,000	(85,000)
	<u>\$97,000</u>	<u>\$ 3,000</u>	<u>\$(162,000)</u>

ARKANSAS BEST CORPORATION
(Statement of Operations)

	Year Ended December 31,		
	1980	1979	1978
Income (Loss) Before Income Taxes	\$10,749,473	\$(4,122,973)	\$15,736,077
Federal and State Income Taxes--Note H			
Current (credit)	1,939,084	(5,911,699)	4,753,238
Deferred	<u>2,474,085</u>	<u>2,587,536</u>	<u>2,028,338</u>
	<u>4,413,169</u>	<u>(3,324,163)</u>	<u>6,781,576</u>

(Notes to Financial Statements)

Note H--Federal and State Income Taxes

A reconciliation between the effective income tax rate, as computed on income before extraordinary charge, and the statutory federal income tax rate is presented below:

	1980	1979	1978
Income tax (credit) at the statutory federal rate of 46% (48% in 1978)	\$4,944,758	\$(1,896,568)	\$7,553,317
Federal income tax effects of:			
Investment tax credit	(1,120,217)	(1,037,027)	(1,072,989)
State income taxes	(313,005)	132,687	(510,741)
Other	<u>221,187</u>	<u>(246,823)</u>	<u>(252,055)</u>
Federal income taxes (credit)	<u>3,732,723</u>	<u>(3,047,731)</u>	<u>5,717,532</u>
State income taxes (credit)	<u>680,446</u>	<u>(276,432)</u>	<u>1,064,044</u>
Provision for income taxes (credit)	<u>\$4,413,169</u>	<u>\$(3,324,163)</u>	<u>\$6,781,576</u>

Deferred income taxes arise as a result of the use of the following:

	1980	1979	1978
Accelerated depreciation for tax purposes and gains on revenue equipment trade-in	\$1,585,230	\$2,378,808	\$1,070,376
Prepayments and accrued expenses--timing differences	833,972	(703,759)	1,138,701
Interest capitalization	248,681	102,328	-
Reclassification from prior years' current liability	-	700,000	-
Other	<u>(193,798)</u>	<u>110,159</u>	<u>(180,739)</u>
Total deferred income tax expense	<u>\$2,474,085</u>	<u>\$2,587,536</u>	<u>\$2,028,338</u>

The sale of 661,000 shares of common stock of a majority-owned subsidiary in 1975 and the subsequent sale in 1976 of a note received in partial payment resulted in losses for tax purposes which were, for financial statement purposes, recognized in 1975 and prior years. These losses have been included in the 1975 and 1976 federal income tax returns of the Company as noncapital losses. Because of the complex

(continued)

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issues involved, the Company has provided for income taxes on the basis of income before deduction of such losses. At December 31, 1980, noncurrent federal income taxes included in the balance sheet were comprised of the following items:

Refunded amounts arising from carryback of net operating loss (tax basis) for 1975	\$3,713,043
Income tax provisions for 1975 and 1976 financial statements in excess of income tax return amounts	3,090,045
	6,803,088
Accrued interest	2,425,192
Total amount provided for any liability which may be realized on these issues	<u>\$9,228,280</u>

Income tax returns through 1976 have been examined by the Internal Revenue Service and additional income taxes have been proposed which approximate the amounts provided for by the Company. The Company is contesting the proposed additional taxes; however, as explained above, because of the complex issues involved, the Company has made provision for the aforementioned taxes. Any portion of the \$9,228,280 not required to satisfy the liability, as finally determined, will be recorded as income upon final resolution of the issues.

Recoverable federal income taxes of \$5,273,542 at December 31, 1979 resulted from the Company's operating loss for 1979 and 1979 investment tax credits being carried back to reduce prior years' income taxes.

Investment tax credits—methods of recognition

The predominant method used by the surveyed companies to account for the investment tax credit was the "flow through" method. Thirty carriers recognized the investment tax credit using the "flow through" method, and ten companies used the "deferral" method.

EXAMPLE Flow through method

THE BEKINS COMPANY
(Accounting Policies Footnote)

Investment Tax Credit

Investment tax credit amounted to \$226,000 in 1980, \$477,000 in 1979 and \$571,000 in 1978 and is accounted for by the flow-through method, reducing income tax expense (increasing tax credit) in the period the credit is earned.

EXAMPLE Deferral method

OVERNITE TRANSPORTATION COMPANY
(Accounting Policies Footnote)

Investment Tax Credit

Investment tax credits are deferred in the year the property is purchased and amortized over the estimated useful life of the related property.

Investment tax credits—other disclosures

All reports disclosed the amount of investment tax credit used. Table 28 indicates the disclosure methods used by the surveyed companies.

Table 28. METHODS USED TO DISCLOSE AMOUNT OF INVESTMENT TAX CREDIT USED

	No. of Surveyed Companies
Disclosed in a footnote	38
Shown on the income statement	<u>2</u>
	<u>40</u>

EXAMPLES Disclosure of investment tax credit

CHEMICAL LEAMAN CORPORATION (Notes to Financial Statements)

Income Taxes

The difference between the statutory and effective federal income tax rates is as follows:

	1980		1979		1978	
	Amount	% of Pretax Earnings	Amount	% of Pretax Earnings	Amount	% of Pretax Earnings
Computed "expected" tax expense	\$2,031,000	46.0%	\$2,285,000	46.0%	\$5,093,000	48.0%
Increase (decrease) resulting from:						
Investment tax credit	(878,000)	(19.9)	(1,405,000)	(28.3)	(1,778,000)	(16.8)
State income tax net of federal tax benefit	217,000	4.9	223,000	4.5	347,000	3.3
Discontinued operations--tax allocation	--	--	520,000	10.5	--	--
Other	(36,000)	(.8)	(117,000)	(2.4)	(171,000)	(1.6)
Actual tax expense	<u>\$1,334,000</u>	<u>30.2%</u>	<u>\$1,506,000</u>	<u>30.3%</u>	<u>\$3,491,000</u>	<u>32.9%</u>

Income tax expense is comprised of the following:

	1980	1979	1978
United States Federal:			
Current	\$ 253,000	\$1,272,000	\$ 859,000
Deferred	441,000	(746,000)	1,949,000
Foreign:			
Current	37,000	183,000	15,000
Prior	201,000	479,000	--
State:			
Current	168,000	235,000	410,000
Deferred	234,000	83,000	258,000
	<u>\$1,334,000</u>	<u>\$1,506,000</u>	<u>\$3,491,000</u>

The effect of accelerated depreciation, investment tax credit and other items on deferred income tax is as follows:

	1980	1979	1978
Higher accelerated tax depreciation	\$1,106,000	\$ 781,000	\$2,187,000
Unused investment tax credit	(919,000)	(1,392,000)	(98,000)
Tires and hoses	368,000	(175,000)	125,000
Other	120,000	123,000	(7,000)
	<u>\$ 675,000</u>	<u>\$ (663,000)</u>	<u>\$2,207,000</u>

Accrued income taxes include deferred taxes amounting to \$703,000 and \$215,000 at December 31, 1980 and 1979, respectively, relating to current assets.

Included in earnings before taxes on income is the following income attributable to foreign operations:

1980	1979	1978
\$489,000	\$450,000	\$418,000

LEASEWAY TRANSPORTATION CORP. (Statement of Earnings)

	1980	1979	1978
	(Amounts In Thousands)		
Income Taxes			
Current	\$21,270	\$19,390	\$20,680
Deferred	12,950	8,310	9,070
Investment tax credits	(10,240)	(7,370)	(10,700)
	<u>23,980</u>	<u>20,330</u>	<u>19,050</u>

Earnings per share

EXAMPLES Earnings per share disclosures

TELECOM CORPORATION
(Statement of Income)

	1980	1979	1978
Earnings (loss) per share:			
Primary:			
Income (loss) before extraordinary charge	\$ (.91)	\$2.05	\$2.33
Extraordinary charge	(4.94)		
Net income (loss)	<u>\$ (5.85)</u>	<u>\$2.05</u>	<u>\$2.33</u>
Fully diluted:			
Income (loss) before extraordinary charge	\$ (.91)	\$2.00	\$2.26
Extraordinary charge	(4.94)		
Net income (loss)	<u>\$ (5.85)</u>	<u>\$2.00</u>	<u>\$2.26</u>

(Accounting Policies Footnote)

Earnings Per Share

Primary earnings per share are calculated on the weighted average number of common shares outstanding during the years adjusted for stock options, if applicable, which are considered common stock equivalents. Fully diluted earnings per share assumes the conversion of the 6-3/8% convertible subordinated debentures and the exercise of stock options, provided the assumed additional shares would result in a dilution of earnings. Primary earnings per share were based on 3,682,000, 3,679,000 and 3,618,000 shares for the years ended December 31, 1980, 1979 and 1978, respectively. Fully diluted earnings per share were based on 3,682,000, 3,875,000 and 3,832,000 shares for the years ended December 31, 1980, 1979 and 1978, respectively.

LYNDEN TRANSPORT, INC.
(Statement of Net Earnings and Retained Earnings)

	1980	1979	1978
Earnings Per Share Before Extraordinary Item and Cumulative Effect of			
Change in Accounting	\$8.05	\$2.62	\$1.29
Extraordinary Item	(.78)		
Change in Accounting	.61		
Net Earnings	<u>\$7.88</u>	<u>\$2.62</u>	<u>\$1.29</u>
Average Number of Common Shares Outstanding	431,349	471,950	500,968

(Accounting Policies Footnote)

Earnings per share

Earnings per share calculations are based on the weighted average number of shares outstanding during the year. Shares issuable under options are included in the calculations to the extent they are dilutive.

RYDER SYSTEM, INC.
(Statement of Earnings)

	1980	1979	1978
Earnings per share:			
Primary	<u>\$3.32</u>	<u>\$3.73*</u>	<u>\$3.39*</u>
Fully diluted	<u>\$3.32</u>	<u>\$3.73*</u>	<u>\$3.33*</u>

*Restated for May 1979 and 1980 3% common stock dividends.

(Accounting Policies Footnote)

Earnings Per Share

Primary earnings per share are computed by dividing net earnings, after provision for preferred dividends, if any, by the weighted average number of shares of common stock and common stock equivalents outstanding during the year. Common stock equivalents consist of the average number of shares, computed quarterly, issuable upon the exercise of all employee stock options and outstanding employee stock subscriptions, if dilutive, less the common shares which could have been purchased, at the average market price during each quarter, with the assumed proceeds from the exercise of the options and subscriptions.

In computing fully diluted earnings per share, earnings available for common shares are assumed to have been increased by the dividends, if any, on the convertible preferred stock as if it had been converted. The weighted average number of shares of common stock and common stock equivalents is increased by the shares that would be issued assuming the conversion of the convertible preferred stock. Common stock equivalents are recomputed to assume the purchase of shares at each quarter-end market price if higher than the average market price during the quarter.

SECTION G

Statement of Changes in Financial Position

Three years' statements of changes in financial position are required in annual shareholder reports as a result of the SEC revisions to reporting rules. The presentation format used for the statement is shown in Table 29.

TABLE 29. FUNDS STATEMENT FORMAT USED BY SURVEYED COMPANIES

	No. of Surveyed Companies
Sources less applications equal working capital change	27
Sources equal applications	10
Balance of working capital at end of year	<u>3</u>
	<u>40</u>

EXAMPLES Format of statements of changes in financial position

KENAN TRANSPORT CO.
(Statement of Changes in Financial Position)

	1980	1979	1978
Working Capital Was Provided By			
Income before extraordinary item	\$1,458,116	\$1,523,193	\$1,124,255
Charges not requiring a current outlay of working capital--			
Depreciation and amortization	1,561,498	1,228,480	\$1,041,094
Deferred income taxes	500,510	447,123	390,766
Total from operations	3,520,124	3,198,796	2,556,115
Proceeds from long-term debt	-	1,519,550	405,787
Book value of operating property retired	286,808	466,632	521,157
Other	71,860	10,655	(72,158)
Total working capital provided	<u>3,878,792</u>	<u>5,195,033</u>	<u>3,410,901</u>
Working Capital Was Applied To			
Purchase operating property	2,068,189	3,427,156	2,937,941
Reduce long-term debt	1,469,256	1,414,062	1,124,365
Dividends	90,778	75,627	65,603
Total working capital applied	<u>3,628,223</u>	<u>4,916,845</u>	<u>4,127,909</u>
Increase (Decrease) In Working Capital	<u>\$ 250,569</u>	<u>\$ 278,788</u>	<u>\$ (717,008)</u>
Increase (Decrease) In Components Of Working Capital			
Cash and certificates of deposit	\$ (687,477)	\$ 610,802	\$ (656,406)
Accounts receivable	345,546	100,918	281,570
Operating supplies and parts	208,082	126,294	98,281
Prepayments	87,442	90,816	90,638
Accounts payable and accrued liabilities	(199,533)	(271,983)	(630,322)
Income taxes	232,450	(145,000)	(110,000)
Current maturities of long-term debt	264,059	(233,059)	209,231
Increase (Decrease) In Working Capital	<u>\$ 250,569</u>	<u>\$ 278,788</u>	<u>\$ (717,008)</u>

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COASTAL INDUSTRIES, INC.
(Statement of Changes in Financial Position)

	1980	1979
Source of Funds		
From operations:		
Income before extraordinary charge	\$ 2,117,343	\$2,337,672
Charges to income not requiring outlay of working capital:		
Provision for depreciation	4,186,654	4,508,321
Amortization of intangibles and other deferred charges	62,507	70,924
Increase in deferred income taxes	718,000	196,000
Increase in equipment repairs and insurance claims	46,307	74,561
Charge equivalent to tax benefit	-0-	13,000
Total From Operations Before Extraordinary Charge	7,130,811	7,200,478
Extraordinary charge of \$5,104,331 in 1980 not requiring outlay of working capital	-0-	-0-
Total From Operations	7,130,811	7,200,478
Net book value of carrier operating property disposals	658,722	1,023,160
Proceeds from long-term obligations	4,590,382	473,134
Proceeds from issuance of Common Stock upon the exercise of stock options, including tax benefits	-0-	52,125
Decrease in working capital	1,108,476	65,988
Total Source of Funds	<u>\$13,488,391</u>	<u>\$8,814,885</u>
Application of Funds		
Additions to carrier operating property	\$ 3,943,022	\$5,566,312
Reduction of long-term obligations	6,294,036	2,761,805
Common Stock retired	2,139,252	-0-
Required redemption of 6% Cumulative Preferred Stock within one year	267,000	-0-
Adjustment to tax basis of the carrying value of Common Stock contributed to the Employees' Stock Ownership Plan	46,704	-0-
Cash dividends paid	450,292	387,979
Decrease in deferred compensation	-0-	13,750
Increase in other assets	348,085	35,039
Increase in operating rights	-0-	50,000
Total Application of Funds	<u>\$13,488,391</u>	<u>\$8,814,885</u>
Changes in Components of Working Capital		
Increase (decrease) in current assets:		
Cash	\$ (800,859)	\$ 926,770
Notes and accounts receivable	(1,149,391)	598,675
Repair parts and operating supplies	46,157	166,335
Prepaid expenses	266,983	52,967
	<u>(1,637,110)</u>	<u>1,744,747</u>
Increase (decrease) in current liabilities:		
Accounts payable and accrued expenses	(1,355,210)	1,556,100
Federal income taxes	222,406	220,000
Redemption of 6% Cumulative Preferred Stock	267,000	-0-
Current maturities on long-term obligations	337,170	34,635
	<u>(528,634)</u>	<u>1,810,735</u>
(Decrease) in Working Capital	<u><u>\$(1,108,476)</u></u>	<u><u>\$ (65,988)</u></u>

BRIGGS TRANSPORTATION CO.
(Statement of Changes in Financial Position)

	Year ended December 31		
	1980	1979	1978
Source of Funds			
Operations:			
Earnings (loss) before extraordinary charge	\$(1,023,486)	\$(1,896,528)	\$ 468,244
Depreciation and amortization	3,383,783	3,468,469	3,379,931
Gain on disposal of property and equipment	(663,423)	(683,887)	(350,304)
Deferred income taxes	(310,000)	(1,145,000)	(330,000)
Provided from operations before extraordinary charge	1,386,874	(256,946)	3,167,871
Extraordinary charge which did not affect funds	-	-	-
Provided from operations	1,386,874	(256,946)	3,167,871
Additions to long-term debt	4,107,868	3,674,439	3,918,710
Proceeds from disposal of property and equipment	1,747,659	1,587,267	707,775
Increase (decrease) in trade and interline accounts payable	416,775	(251,267)	523,297
Decrease (increase) in prepaid expenses, including tires in service	434,266	(180,955)	(319,960)
Increase (decrease) in wages, vacation pay, and amounts withheld from wages	380,917	(661,873)	447,032
Proceeds from sale of operating authority	225,000		
Proceeds from sale of common stock	141,818	101,344	177,857
Decrease (increase) in materials and supplies	91,000	(187,124)	(16,596)
Increase (decrease) in liability for income taxes	3,370	1,572	(82,939)
Other sources	7,624	61,559	
	<u>8,943,171</u>	<u>3,888,016</u>	<u>8,523,047</u>
Use of Funds			
Purchases of property and equipment	3,280,033	3,559,098	6,370,213
Payments on long-term debt	5,311,765	2,156,168	1,620,447
Purchases of operating authority	499,928		70,729
Decrease (increase) in other current liabilities	71,686	195,744	(344,526)
Increase (decrease) in trade and other receivables	39,719	(1,189,841)	1,115,367
Other uses	47,889	29,568	16,604
	<u>9,251,020</u>	<u>4,750,737</u>	<u>8,848,832</u>
Decrease in cash and certificates of deposit	<u>\$ (307,849)</u>	<u>\$ (862,721)</u>	<u>\$ (325,785)</u>

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ROADWAY EXPRESS, INC.
(Statement of Changes in Financial Position)

	1980	1979	1978
	(dollars in thousands)		
Source of Funds			
From operations:			
Income before extraordinary charge	\$ 69,657	\$ 57,193	\$ 56,917
Charges to income not requiring funds:			
Provision for depreciation and amortization	52,356	47,471	38,553
Increase in other liabilities	1,200	7,189	9,980
Total From Operations	\$123,213	\$111,853	\$105,450
Disposal of carrier operating property	1,360	2,943	3,818
Decrease in other assets	-	42	-
Issuance of treasury shares for employee stock plans	2,184	-	-
Total Source of Funds	\$126,757	\$114,838	\$109,268
Application of Funds			
Additions to carrier operating property	\$ 47,810	\$ 72,249	\$ 78,578
Increase in operating rights	-	2,907	398
Increase in other assets	53	-	686
Purchase of Common Stock for treasury	1,801	22,620	-
Cash dividends declared	20,556	14,823	11,741
Total Application of Funds	\$ 70,220	\$112,599	\$ 91,403
Increase in Working Capital	\$ 56,537	\$ 2,239	\$ 17,865
Working Capital at Beginning of Year	105,223	102,984	85,119
Working Capital at End of Year	\$161,760	\$105,223	\$102,984
Increase (Decrease) in Components of Working Capital			
Current Assets:			
Cash and marketable securities	\$ 99,151	\$ (19,421)	\$ 52,218
Accounts and interest receivable	1,384	8,367	6,829
Prepaid expenses and supplies	3,452	4,278	1,576
	\$103,987	\$ (6,776)	\$ 60,623
Current Liabilities:			
Accounts payable and accrued items	\$ 23,853	\$ (1,404)	\$ 24,446
Federal income taxes	23,597	(7,611)	18,312
	\$ 47,450	\$ (9,015)	\$ 42,758
Increase in Working Capital	\$ 56,537	\$ 2,239	\$ 17,865

SECTION H

Accounting Policies Footnotes

Accounting Principles Board (APB) Opinion No. 22, "Disclosure of Accounting Policies," requires disclosure of accounting policies in the notes to the financial statements. All reports reviewed had an accounting policies footnote or a summary of the company's accounting principles. The titles most commonly used were "accounting policies" or "accounting principles." The most frequent type of disclosures included in the accounting policies footnote and the frequency of disclosure are shown in Table 30.

It should be noted that Opinion No. 22 requires disclosure of "principles and methods peculiar to the industry in which the reporting entity operates, even if such principles and methods are predominantly followed in that industry." The subjects that appear to be peculiar to the motor carrier industry are operating rights, ICC regulations, tires, claims, and revenue recognition.

It should also be noted that some policies may be disclosed in separate footnotes and that the following tabulation includes only those items described in the principles or policies footnote.

TABLE 30. SUBJECT MATTER INCLUDED IN ACCOUNTING POLICIES FOOTNOTE

	No. of Surveyed Companies		No. of Surveyed Companies
Depreciation and/or equipment	40	Foreign currency translation	3
Consolidation	37	Marketable securities and/or investments	3
Investment tax credits	32	Accounting for leases	2
Revenue recognition	26	Accrual for future equipment repairs	2
Income taxes	25	Capitalization of interest	2
Earnings per share	23	Real estate operations	2
Operating rights	19	Accrued vacations	1
Self-insurance or claims liability	18	Allowance for doubtful accounts	1
Tires and tubes	15	Audit Committee	1
Inventories	14	Business segment	1
Pension plans	12	Leasing operations	1
Interstate Commerce Commission regulations	5	Reserves	1
Fiscal year end	4	Stock options	1

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EXAMPLES Accounting policies footnotes

T.I.M.E.-DC, INC.

Accounting Principles and Policies

The consolidated financial statements include the accounts of the Company and its subsidiaries. The Company's 50% investment in United Terminals, Ltd. (a Canadian affiliate) is carried at cost, plus equity in undistributed earnings since acquisition. Inter-company accounts and transactions have been eliminated.

The Company's significant accounting principles and policies are as follows:

Operating revenues are recognized at the time the shipment is received from the customer.

Tires on equipment in service are recorded at approximately 50% of acquisition cost.

Property held for sale consists of land and structures not currently used in the operations and is stated at the lower of acquisition cost, less accumulated depreciation, or estimated aggregate net realizable value.

Property and equipment are recorded at acquisition cost. Additions are charged to property accounts, while replacements, maintenance and repairs (which do not improve or extend the life of the respective asset) are expensed in the year incurred. When properties are disposed of, the related costs and accumulated depreciation are removed from the respective accounts and gain or loss on disposition is credited or charged to operations. Depreciation is recorded on the straight-line method over the estimated useful lives of the assets as follows:

Buildings	25 - 40 years
Transportation equipment	5 - 7 years
Other property and equipment	8 - 10 years

The Company's estimated liability for claims and insurance is based upon claims for cargo loss and damage, personal injuries, property damage and freight overcharges on file and unsettled as of the year-end and includes an estimate for unreported claims to be filed based primarily on historical experience.

Deferred income taxes arise primarily from the use of accelerated depreciation and timing differences as to the deductibility of certain estimated liabilities for income tax purposes. The Company utilizes the deferred method of accounting for investment tax credits and amortizes such credits into income over the estimated useful lives of the related property.

Net earnings (loss) per common and common equivalent share are based on the weighted average number of common shares outstanding which aggregated 2,611,696 and 2,611,669 in 1980 and 1979, respectively. Common shares outstanding for 1978 were 3,349,029 based on assuming full conversion of con-

vertible preferred stock; the adjustment was not made in 1980 and 1979 as its effect would not be dilutive. Accordingly, net earnings (loss) for 1980 and 1979 were reduced by preferred stock dividends paid or in arrears aggregating \$532,000 respectively. The dilutive effect of stock options is not material.

As a result of the Motor Carrier Act of 1980 enacted on July 1, 1980, the operating rights of the Company became valueless. Accordingly, the previous carrying value of such operating rights of \$8,313,000 was written off as an extraordinary item. The trucking industry is seeking federal legislation to allow for an income tax deduction for this write-off and, accordingly, any tax benefits will be recognized when determinable. Previously, operating rights were not being amortized as substantially all of these rights were acquired prior to November, 1970 and, in the opinion of management, were not decreasing in value.

INTERSTATE MOTOR FREIGHT SYSTEM

Significant Accounting Policies

Principles Of Consolidation

The consolidated financial statements include the accounts of Interstate and all its subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation.

Fiscal Year

Interstate's fiscal year ends on the Saturday nearest the end of December.

Inventories

Inventories comprise tires, fuel and repair materials to be used in future operations and are carried at the lower of cost (on the first-in, first-out method) or market.

Carrier Operating Property

Carrier operating property is stated at cost. Major renewals are charged to the property accounts while maintenance, repairs and minor renewals which do not improve or extend the life of the respective assets are expensed currently.

Interstate follows the policy of providing for depreciation of carrier operating property by charging against earnings amounts sufficient to amortize the cost of properties over their estimated useful lives. Depreciation is provided on the straight-line method.

When properties are sold or otherwise disposed of, the related costs and accumulated depreciation are removed from the respective accounts, and any profit or loss on disposition is credited or charged to earnings.

Lease amortization is included in depreciation expense.

Intangible Assets

The amount stated for intangible assets represents the amount paid for operating rights acquired by Interstate's foreign subsidiary. Interstate does not intend to amortize the cost of rights purchased prior to November 1, 1970 as long as they represent assets of continuing value. Rights acquired after October 31, 1970 are being amortized by the straight-line method over a forty-year period. Amounts previously reported as U.S. operating rights were written off during 1980.

Claims Payable

Interstate is self-insured up to certain limits for cargo loss and damage, property damage and liability and certain workers' compensation. Amounts stated as claims payable represent estimated liabilities resulting from accidents and losses under these programs and other events giving rise to claims against Interstate occurring prior to the end of the fiscal year, and include amounts for claims which have been received by Interstate through the close of the respective fiscal year and an estimate for unreported claims to be filed based primarily on historical experience.

Income Taxes

Income tax expense through October 31, 1980 is based upon amounts includible in the consolidated income tax return filed by Fuqua. Interstate receives credit for any resulting reduction in the consolidated tax liability of Fuqua. Interstate does not provide income tax expense in excess of the amount which would be due were the amount computed on a separate return basis. Subsequent to October 31, 1980 the Corporation will be required to file a separate return for Federal income tax purposes.

For income tax purposes, Interstate charges the cost of tires to expense when they are placed in service and computes depreciation on substantially all trucks, tractors, trailers, service cars and certain other properties by accelerated methods. In addition, Interstate adjusts the carrying value of acquired property for gains or losses from equipment trades for income tax purposes, while reporting such gains or losses as income or expense in its financial statements. Appropriate recognition has been made of income taxes deferred by reason of these policies and other timing differences between income for financial reporting and income tax purposes.

Interstate accounts for investment tax credits as a reduction of income tax expense during the year in which the related assets are placed in service (flow-through method).

Revenue recognition

Carrier operating revenues are recognized on the date freight is picked up from the shipper. Estimated costs to deliver the freight are accrued.

Reclassifications

Certain prior year amounts have been reclassified to conform to classifications adopted for the year ended January 3, 1981.

CONSOLIDATED FREIGHTWAYS, INC.

Principal Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Consolidated Freightways, Inc. (the Company) and its wholly owned subsidiaries except Freightliner Credit Corporation, a wholly owned sales finance subsidiary, which is reported on an equity basis. All significant intercompany accounts and transactions are eliminated in consolidation.

Recognition of Revenues and Sales

The motor carrier and air freight forwarding subsidiaries recognize freight charges as revenue when freight is received for shipment. Estimated costs of performing the total transportation services are then accrued. The manufacturing subsidiaries recognize sales when completed trucks and manufactured parts are shipped.

Inventories

Substantially all of the manufacturing inventories are valued on the last-in, first-out (LIFO) basis. Other inventories are stated at the lower of average cost or market. If the LIFO inventories had been priced at average cost, the reported inventories would have been increased by \$34,915,000 at December 31, 1980; \$28,360,000 at December 31, 1979; and \$20,522,000 at December 31, 1978. Net income would have increased \$3,497,000 (\$.26 per share) in 1980; \$3,932,000 (\$.30 per share) in 1979; and \$3,502,000 (\$.27 per share) in 1978.

Depreciation

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, which are generally 25 years for buildings, 6 or 7 years for power units and trailers and 10 years for all other equipment and fixtures. Leasehold improvements are amortized over the terms of the respective leases or the lives of the assets, whichever is shorter.

Expenditures for maintenance and repairs are charged to operating expenses as incurred; betterments are capitalized. Upon the disposal of property, the cost and accumulated depreciation are removed from the accounts and any gain or loss is recorded as other income (expense).

Operating Rights and Goodwill

Prior to June 30, 1980, the Company capitalized all costs associated with the acquisition of operating rights and amortized those costs acquired after October 31, 1970 over a 40-year period. However, the Motor Carrier Act of 1980, which became effective July 1, provides for easier access to the trucking industry by new companies and eases restrictions on expansion of services by existing carriers. In the opinion of management, the Act has virtually eliminated the ongoing market value of the Company's U.S. motor carrier operating rights. Consequently, these rights have been written off.

(continued)

84 Accounting Policies Footnotes

A minor amount of goodwill associated with certain U.S. motor carrier acquisitions along with other goodwill and Canadian operating rights acquired after October 31, 1970 have not been written off and continue to be amortized over a 40-year period.

Income Taxes

Investment tax credits are recognized as a reduction of income tax expense during the year in which the benefit is received (flow-through method).

The undistributed earnings of the Company's Canadian motor carrier subsidiary, totaling \$25,105,000 at December 31, 1980, have been reinvested indefinitely. Therefore, no distribution taxes have been provided on these earnings.

Accrued Claims Cost

The Company provides for the uninsured cost of property, casualty and liability claims. Such cost is charged to income each year based on historical claims experience and covers both filed unpaid claims and unfiled claims relating to operations conducted through December 31, 1980. The obligations for claims which are not expected to be paid within one year are classified under deferred credits and other liabilities in the accompanying consolidated balance sheets.

Net Income Per Share

Net income per share is based on the weighted average number of shares outstanding during each year:
13,112,966 shares in 1980, 13,031,052 shares in 1979 and 12,866,807 shares in 1978.

SECTION I

Other Noteworthy Disclosures

Inflation accounting

The provisions of FASB Statement No. 33, "Financial Reporting and Changing Prices," were effective for fiscal years ending on or after December 25, 1979. However, companies could postpone giving current cost disclosures for 1979 until their first annual report for a fiscal year ending on or after December 25, 1980. Therefore, even if a calendar year company had omitted current cost disclosures in its 1979 annual report, it was required to present comparative disclosures in its 1980 annual report.

EXAMPLES Statement No. 33 disclosure

RYDER SYSTEM, INC.
(Notes to Financial Statements)

Effects of Inflation (Unaudited)

Introduction

In September 1979, the Financial Accounting Standards Board (FASB) issued Statement No. 33, "Financial Reporting and Changing Prices." The objective of the Statement is to measure the effect of inflation on business enterprises which traditional (historical cost) accounting methods do not attempt to measure.

The Statement requires disclosure of supplemental information which represents traditional (historical cost) financial statement information adjusted, on an experimental estimated basis, for inflation by using two prescribed methods. The constant dollar method adjusts historical cost data for the impact of inflation by utilizing the Consumer Price Index for all Urban Consumers (CPI-U) as a broad-based measure of the general inflation rate. The current cost method adjusts historical cost data to reflect the inflation rate for specific prices of existing assets.

Constant Dollar Method

Using the constant dollar method, certain elements of the historical cost statement of earnings are adjusted using the CPI-U index. Operating expenses and cost of sales have been adjusted (using the CPI-U) for the increase in the cost of inventories consumed during the year. Depreciation expense, net of gains on disposal of revenue earning equipment, has been adjusted to reflect the change in the CPI-U since the date of acquisition of the various assets. Revenue and net sales, miscellaneous income and interest expense are considered to reflect the average price levels for the year and, in accordance with FASB Statement No. 33, have not been adjusted.

Current Cost Method

Using the current cost method, the historical cost statement of earnings and certain balance sheet data

are adjusted to reflect the change in specific prices of existing assets. Revenue earning equipment and operating property and equipment have been restated to reflect their current value, as measured by published indices and current market prices. Depreciation expense has been adjusted to reflect the current value of these assets and the related gains on disposal of revenue earning equipment were adjusted (using the CPI-U) to exclude the effects of inflation. Inventories and cost of sales were not adjusted as their historical cost approximates current value.

Gain on Net Amounts Owed

Management believes that the statements of earnings, using the constant dollar and current cost methods required by Statement No. 33, are not valid presentations of the company's inflation-adjusted results because they do not include purchasing power gains on net amounts owed. In Ryder's primary business, full-service truck leasing and rental, the financing of vehicles is an integral part of its operations. Typically, lease and rental vehicles are purchased using primarily debt capital and, as a result, the company's monetary liabilities have consistently exceeded its monetary assets. In periods of inflation, this net debtor position has created large purchasing power gains on net amounts owed as the debt acts as a hedge against the effects of inflation on the related assets. Management believes that the constant dollar and current cost methods are inappropriate for truck leasing and rental operations because, while they adjust depreciation expense for increased vehicle costs, they do not consider the impact on net earnings of the purchasing power gains on the related financing of the vehicles. Therefore, management believes that the reader must examine the purchasing power gains on net amounts owed in conjunction with the constant dollar and current cost net earnings in order to evaluate the effects of inflation on Ryder's results.

Experimental Estimation

In Statement No. 33, the FASB stated that "the measurement and use of information on changing prices will require a substantial learning process on the part of all concerned." The FASB further stated that it "encourages experimentation" in developing new techniques to measure the impact of changing prices. This experimentation and learning process

(continued)

86 Other Noteworthy Disclosures

will result in enterprises in the same industries or in similar circumstances using different approaches and obtaining different results. As a result, there is an inevitable lack of comparability among the data disclosed by various companies.

In the computation of inflation-adjusted data, using both the constant dollar and current cost methods, it is necessary to use numerous assumptions and estimates. Also, the constant dollar method utilizes the CPI-U as an estimate of the general infla-

tion rate. This index is based upon price changes for an urban consumer's marketbasket of goods and services and it may not reflect the impact of inflation on Ryder's operations.

The reader of the following supplemental information should exercise due care in evaluating the inflation-adjusted data. The data is experimental in nature, it may not be comparable with other companies, and it is the result of various assumptions and estimates.

Current Year (1980) Data

	(Dollars in millions except per share data)		
	Historical Cost	Constant Dollar	Current Cost
Revenue, net sales and miscellaneous income	\$1,698.6	1,698.6	1,698.6
Costs and expenses:			
Operating expenses	1,090.3	1,094.1	1,090.3
Cost of sales	261.6	263.3	261.6
Depreciation expense, net of gains (losses) on disposal of revenue earning equipment:			
Historical--\$28.6; Constant dollar and current cost--\$(6.1)	177.9	259.8	259.7
Interest expense, net	83.6	83.6	83.6
Earnings (loss) before provision for income taxes	85.2	(2.2)	3.4
Provision for income taxes	28.7	28.7	28.7
Net earnings (loss)	\$ 56.5	(30.9)*	(25.3)*
Earnings (loss) per share	\$ 3.32	(1.82)*	(1.49)*
Effective income tax rate**	34%	N/A	844%
Increase in the general price level of operating property and equipment and revenue earning equipment held during the year			\$ 173.2
Increase in specific prices of operating property and equipment and revenue earning equipment held during the year			102.4
Excess of increase in general price level over increase in specific prices			\$ 70.8
Current cost of property and equipment, net, at December 31, 1980			\$1,499.5
Shareholders' equity at December 31, 1979	\$ 307.1	559.3	619.5
Net earnings (loss)	56.5	(30.9)	(25.3)
Purchasing power gain on net amounts owed	-	119.9*	119.9*
Cash dividends	(17.6)	(17.4)	(17.4)
Other changes	8.9	8.9	8.9
Decrease in specific prices of operating property and equipment and revenue earning equipment, net of inflation	-	-	(70.8)
Shareholders' equity at December 31, 1980	\$ 354.9	639.8	634.8

* Management believes that the reader must examine the purchasing power gains on net amounts owed of \$119.9 million in conjunction with the constant dollar and current cost net earnings in order to evaluate the effects of inflation on Ryder's results.

** The provision for income taxes has not been adjusted in the constant dollar and current cost presentations because the hypothetical cost increases reflected above are not deductible for income tax purposes.

Discussion of Current Year (1980) Data

The decline in net earnings reflected in both the current cost and constant dollar supplemental information results primarily from a significant increase in depreciation expense, net of gains (losses) on disposal of revenue earning equipment, which is associated with the inflation-adjusted, higher cost of the company's assets. As previously mentioned, management believes that the reader must examine the purchasing power gains on net amounts owed of \$119.9 million in conjunction with the constant dollar and current cost net earnings in order to evaluate the effects of inflation on Ryder's results.

The excess of the increase in general price level over the increase in specific prices reflects the

increase in the general rate of inflation (using the CPI-U as an estimate of this rate) over the increase in the specific prices of the company's operating property and equipment and revenue earning equipment during the year.

Shareholders' equity at December 31, 1980, on a constant dollar and current cost basis, is considerably higher than the comparable historical cost amount reported in the financial statements. The increase is primarily the result of the higher cost of the company's revenue earning equipment, operating property and equipment and inventories when expressed in inflated dollars instead of historical dollars and the decline during the year in the purchasing power of the company's net monetary liabilities.

Five-Year Summary of Selected Inflation-Adjusted Financial Data
(Dollars in millions except per share data)

	1980	1979	1978	1977	1976
Revenue and net sales:					
In historical dollars	\$1,694.1	1,454.7	1,124.1	914.5	727.2
In constant 1980 dollars	<u>1,694.1</u>	<u>1,651.4</u>	<u>1,419.8</u>	<u>1,243.5</u>	<u>1,052.6</u>
Net earnings (loss):					
In historical dollars	\$ 56.5	63.0			
In constant 1980 dollars	(30.9)*	7.6			
In current cost average 1980 dollars	<u>(25.3)*</u>	<u>6.3*</u>			
Earnings (loss) per share:					
In historical dollars	\$ 3.32	3.73			
In constant 1980 dollars	(1.82)*	.45*			
In current cost average 1980 dollars	<u>(1.49)*</u>	<u>.37*</u>			
Cash dividends declared per common share:					
In historical dollars	\$ 1.06	.95	.65	.30	.05
In constant 1980 dollars	<u>1.05</u>	<u>1.07</u>	<u>.81</u>	<u>.40</u>	<u>.07</u>
Market price per common share:					
In historical dollars	\$ 27.13	24.63	24.13	15.75	14.13
In constant 1980 dollars	<u>25.91</u>	<u>26.44</u>	<u>29.34</u>	<u>20.69</u>	<u>20.00</u>
Shareholders' equity at year-end:					
In historical dollars	\$ 354.9	307.1			
In constant 1980 dollars	639.8	559.3			
In current cost average 1980 dollars	<u>634.8</u>	<u>619.5</u>			
Purchasing power gain on net amounts owed	\$ 119.9*	117.2*			
Excess (decline) in the increase in specific prices over the increase in the general price level	\$ (70.8)	21.8			
Average consumer price index (1967 = 100)	<u>246.8</u>	<u>217.4</u>	<u>195.4</u>	<u>181.5</u>	<u>170.5</u>

* Management believes that the reader must examine the purchasing power gains on net amounts owed in conjunction with the constant dollar and current cost net earnings in order to evaluate the effects of inflation on Ryder's results.

88 Other Noteworthy Disclosures

FLEXI-VAN CORPORATION (Notes to Financial Statements)

Supplementary Financial Information Regarding Inflation and Changing Prices (Unaudited)

In September 1979, the Financial Accounting Standards Board issued Statement No. 33, Financial Reporting and Changing Prices. This Statement establishes standards for disclosing the effects of inflation on selected financial data, as they relate to the continuing operations, in corporate annual reports. It also specified that a supplemental presentation be made of certain financial data to portray (a) the effect of general price level changes (constant dollars) and (b) price changes of specific assets (current cost). Since the use of arbitrary assumptions, approximations and estimates are required, the resulting measurements should be viewed in that context and not as complete or precise indicators of the effects of inflation or changing prices.

The constant dollar method restates historical cost in units of general purchasing power, using the Consumer Price Index for all urban consumers (CPI-U) as a broad-based measure of inflation. In the financial statements presented below, depreciation is the only expense requiring restatement as all other expenses and revenues reflect the average price level for the year. The increase in depreciation expense is a result of the conversion of operating property from historical cost to average 1979 and 1980 dollars.

Inflation also affects monetary assets such as cash and claims to cash (notes and accounts receivable). Holding a monetary asset during periods of inflation results in a decline in the value of the asset since the dollar loses purchasing power when it is held. Conversely, debtors benefit during inflationary periods because less purchasing power is required to satisfy obligations in the future when they can be paid with less valuable dollars. The Company was a net monetary borrower and had increases in purchasing power of \$42 million and \$48 million in 1979 and 1980, respectively.

The current cost method restates operating property and depreciation expense based on the estimate of the cost of replacing existing operating property at the respective year-ends. In estimating the current cost of revenue equipment, including the rights to use of leased equipment, the Company obtained quotes from manufacturers based on current purchase orders and vendor quotations. The replacement cost of other operating property was estimated from published prices and the use of appropriate indices where applicable.

The provision for income taxes has not been restated as the charges to the income statements under the above methods would not be an allowable tax deduction.

Five Year Comparison of Selected Supplementary Financial Data Adjusted for the Effects of Changing Prices

(In 1980 Dollars)	1980	1979	1978	1977	1976
Revenues (in thousands)	\$190,799	\$181,855	\$182,343	\$145,393	\$117,519
Cash Dividends Declared Per Common Share	\$.80	\$.91	\$.95	\$.61	\$.29
Market Price Per Common Share at Year End	20-1/4	16	18-1/2	27-1/2	17-1/8
Average Consumer Price Index	246.8	217.4	195.4	181.5	170.5

Statements of Income from Continuing Operations Adjusted for the Effects of Changing Prices (in thousands) (unaudited)

For the Years December 31,	1980			1979		
	As Reported on the Historical Cost Basis	Adjusted for General Inflation (Constant Dollar)	Adjusted for Changes in Specific Prices (Current Cost)	As Reported on the Historical Cost Basis	Adjusted for General Inflation (Constant Dollar)	Adjusted for Changes in Specific Prices (Current Cost)
Revenues	\$190,799	\$190,799	\$190,799	\$160,192	\$160,192	\$160,192
Depreciation	41,560	58,000	63,000	32,006	42,000	49,000
All other expenses	124,769	124,769	124,769	89,770	89,770	89,770
Income from continuing operations before income taxes	24,470	8,030	3,030	38,416	28,422	21,422
Provision for income taxes	5,075	5,075	5,075	2,010	2,010	2,010
Income (loss) from continuing operations	\$ 19,395	\$ 2,955	\$ (2,045)	\$ 36,406	\$ 26,412	\$ 19,412
Income (loss) from continuing operations per share--primary	\$ 2.68	\$ (.19)	\$ (1.06)	\$ 5.84	\$ 4.11	\$ 2.89
Effective income tax rate	20.7%	63.2%	167%	5.2%	7.1%	9.4%
Net assets at year-end	\$168,794	\$267,573	\$322,000	\$174,437	\$252,722	\$388,000
Increase in specific prices (current cost) of operating property from continuing operations with a current cost of \$822,000 in 1980 and \$715,000 in 1979			\$ 6,000			\$ 96,000
Effect of increase in general price level			\$ 90,000			\$ 68,000
Effect of increase in specific prices being over (under) the increase in the general level of inflation			\$(84,000)			\$ 28,000

IU INTERNATIONAL CORPORATION
(Notes to Financial Statements)

Effect of Changing Prices (Unaudited)

Financial Accounting Standard No. 33 (FAS 33) requires disclosure of the estimated impact on operations and financial position of both general inflation and the change in current cost of the specific inventory sold and property and equipment employed by a business. Methods prescribed by FAS 33, used to adjust the historical costs of inventory, property, plant and equipment and the related costs of products sold and depreciation, are experimental and result in approximations which should not be relied on as precise measures of inflationary effects.

As required by FAS 33, the impact of general inflation was estimated by indexing historical cost amounts using the Consumer Price Index for all Urban Consumers (CPI-U), a broad-based measure of the general inflation rate. These adjusted costs, expressed in dollars of purchasing power equal to the average purchasing power of the dollar in 1980 are referred to as constant dollar equivalents.

The current cost of specific inventory and property, plant and equipment was estimated generally by direct pricing or by using industry-based indices.

Depreciation expense on the adjusted property, plant and equipment costs was computed using historical depreciation rates and methods. Cost of products sold based on the adjusted costs of inventory was calculated using historical turnover rates. Revenues and other expenses have not been adjusted; they are assumed to have occurred evenly during the year. Income taxes have not been adjusted; current tax law does not allow inflationary adjustments in the determination of actual tax liability.

The reduction to net recoverable cost recognizes that only the historical cost of property, plant and equipment is generally recoverable in the utility rate-setting process. The assets of the water services utility comprise approximately 29% of consolidated property, plant and equipment.

The gain from decline in purchasing power of net amounts owed recognizes that during a period of inflation, monetary liabilities will be repaid in dollars with less purchasing power. The portion of the gain attributable to the net monetary liability position of the water services utility may not be realized, because historical costs are used in the rate-setting process.

(continued)

90 Other Noteworthy Disclosures

The adjustments to reflect the effects of changing prices, as shown in the table, demonstrate the cumulative impact of inflation on the costs of plant and equipment acquired over a period of years and on cost of inventory. The impact of inflation on cost of products sold is less significant because of the inventory turnover rate and because the majority of companies are engaged in service-related industries.

The following reserve information, required by a supplement to FAS 33, is presented as of December 1980 for silver and as of August 1980 for gold. Production at the gold mining property is expected to begin in mid-1982.

In thousands, except market prices,
for the year 1980

	Silver	Gold
Proven and probable ore reserves:		
Tons of ore	35	1,748
Troy ounces	1,177	663
Tons of ore milled	40	--
Troy ounces produced	1,345	--
Average market price per troy ounce	\$20.83	\$613

	Constant dollar average 1980 dollars	Current cost average 1980 dollars
In millions		

Income from continuing operations (as reported in the primary financial statements)	\$76.0	\$ 76.0
Adjustments to restate costs for the effects of changing prices:		
Cost of products sold	(13.2)	(13.4)
Depreciation	(33.9)	(52.5)
Minority interest	.6	1.1
Income from continuing operations (excluding reduction to net recoverable cost)	\$29.5	\$ 11.2

The five-year summary of selected data, as required by FAS 33, has been adjusted to a common unit of measurement, average 1980 dollars.

In millions, except per share data, of average 1980 dollars,
for the years ended December 31,

Constant dollar information:

	1980	1979	1978	1977	1976
Revenues and other income	\$2,261.2	\$2,416.6	\$2,492.0	\$2,374.6	\$2,208.5
Earnings from continuing operations	\$ 29.5	\$ 14.9			
Earnings per share	\$ 1.01	\$.32			
Reduction to net recoverable cost	\$ 17.3	\$ 20.2			
Gain from decline in purchasing power of net amounts owed	\$ 53.4	\$ 54.9			
Net assets at year-end at net recoverable cost	\$ 469.5	\$ 722.1			

Current cost information:

Earnings (loss) from continuing operations	\$ 11.2	\$ (5.3)
Earnings (loss) per share	\$.34	\$ (.29)
Excess of increase in general price level over increase in current cost of inventory and equipment held during the year (based on specific price changes)	\$ 32.0	\$ 11.0
Net assets at year-end at net recoverable cost	\$ 678.3	\$ 945.5

Other information:

Cash dividends per common share	\$ 1.025	\$ 1.08	\$ 1.17	\$ 1.22	\$ 1.27
Market price per common share at year-end	16-3/4	17	12-1/2	14-7/8	16-7/8
Average consumer price index	246.8	217.4	195.4	181.5	170.5

In millions

Reduction of water utility net property, plant and equipment to net recoverable cost*	\$17.3	-
Increase in specific prices (cur- rent cost) of net inventory and property, plant and equipment during the year**		\$159.3
Effect of increase in general price level		191.3
Excess of increase in general price level over increase in specific prices		\$ 32.0
Gain from decline in purchasing power of net amounts owed	\$53.4	\$ 53.4

* Including the reduction to net recoverable cost, income from continuing operations on a constant dollar basis would have been \$12.2. The general inflation rate was higher than the increase in specific prices experienced by the water utility subsidiary. No reduction to recoverable cost was required in 1980 and 1979 on a current cost basis principally because depreciation on a current cost basis provided for any write-down that may have been required.

** At December 31, 1980 and 1979, current cost of inventory was \$177.4 and \$169.3, respectively, and current cost of net property, plant and equipment was \$1,090.4 and \$973.4, respectively.

ROADWAY EXPRESS, INC.
(Notes to Financial Statements)

Supplemental Information and Effects of Changing Prices (Unaudited)

Five-Year Comparison of Selected Supplemental Financial Data and
Effects of Changing Prices
(in average 1980 dollars; in millions, except per share data)

	Year Ended December 31				
	1980	1979	1978	1977	1976
Historical cost information adjusted to reflect changes in the Consumer Price Index (constant dollars):					
Revenue	\$1,155	\$1,242	\$1,244	\$1,091	\$ 888
Net Income	45(1)	44	*	*	*
Net Income per share	2.27(1)	2.17	*	*	*
Net assets at year end	386	394	*	*	*
Historical cost information adjusted to reflect changes in specific prices (current cost):					
Net Income	42(1)	36	*	*	*
Net Income per share	2.12(1)	1.78	*	*	*
Excess of increases in specific prices of carrier operating property over increases in the Consumer Price Index	(12)	16	*	*	*
Net assets at year end	389	418	*	*	*
Other information adjusted to reflect changes in the Consumer Price Index:					
Approximate change in the stated amount of net monetary assets held during the year due to changes in the Consumer Price Index (decrease)	(15)	(15)	*	*	*
Cash dividends declared per share	1.05	.85	.73	.65	.60
Market price per share at year end	33-5/8	28-1/2	30-1/8	41-3/4	63-3/4
Average Consumer Price Index (1967 = 100)	246.8	217.4	195.4	181.5	170.5

* Disclosure not required for years prior to 1979.
(1) Before extraordinary charge.

Basis of Preparation of 1980 Supplemental Data

As required by Financial Accounting Standards Board (FASB) Statement No. 33, "Financial Reporting and Changing Prices", the company must provide supplemental information concerning the effects of changing prices on its financial statements. FASB objectives are to recognize the present inflationary environment and the significant effects that changing prices have on business enterprises.

There is no consensus on which aspects of inflation (if any) should be reported and, accordingly, the FASB has devised an experiment requiring certain large, publicly held companies to present supplemental information reflecting inflation measurements. The disclosures are intended to address two different aspects of an inflationary environment: (1) the effect of a rise in the general price level (called "general inflation") and (2) the effect of specific price changes on the individual assets utilized by the company. During the experimental period the FASB chose to focus on those items most affected by changing prices, that is: (1) the effect of both general inflation and specific price changes on properties and related depreciation expense, and (2) the effect of general inflation on monetary assets and liabilities.

The supplemental information on changing prices does not reflect a comprehensive application of inflation accounting. It is important that financial statement users recognize that these methods inherently

involve the use of assumptions, approximations and estimates. The restated amounts cannot be assumed to show actual or correct changes in values, nor do they consider operating and managerial factors that influence the value of properties and other assets.

Net Income

The primary financial statements and accompanying supplemental financial data present net income under three measurement methods. The company's primary financial statements are prepared based on historical costs; i.e., prices that were in effect at the time the transactions occurred. To show the effects of general inflation, historical net income is restated in dollars of the same (constant) general purchasing power, as measured by the average level of the Consumer Price Index (CPI) for 1980. Then to reflect current costs; i.e., to show the effects of changes in specific prices, constant dollar net income is adjusted for the differences between the changes in specific prices and increases in general inflation. The calculations are described below and the restated figures appear on the accompanying five year comparison of selected financial data.

Under the constant dollar measurement method, the assumption is made that the carrier operating property of the company was purchased with dollars of the same general purchasing power; i.e., in average 1980 dollars. Restated for changes in the Consumer Price Index, historical income of \$70 million, before the extraordinary charge, would be reduced by

(continued)

\$24 million for the additional provision for depreciation which would have occurred, and \$1 million for the reduced gain which would have been realized on the sale of equipment, resulting in income of \$45 million before the extraordinary charge.

Once the above adjustments have been made, income is further adjusted to reflect increases in specific prices, net of the effect of general inflation, on income of the company as if the carrier operating property of the company had been purchased at current prices. These further reductions for additional depreciation and reduced gain on sale of equipment would aggregate \$3 million, resulting in income as restated for changes in specific prices of \$42 million, before the extraordinary charge.

For 1979, expressed in average 1980 dollars, historical income of \$65 million, would be reduced by \$21 million to reflect changes in general inflation and further reduced by \$8 million to reflect current costs.

Revenue and Other Expenses

The amounts of revenues and other expenses already approximate average 1980 constant dollars and remain unchanged from those amounts presented in the primary financial statements.

Income Taxes

The provision for federal income taxes remains the same as reported in the primary financial statements. Under present tax laws, allowable deductions for depreciation do not recognize the effects of inflation. Thus, taxes are levied on the company at rates which, in real terms, exceed established statutory rates. During periods of persistent inflation and rapidly increasing prices, such a tax policy effectively results in a tax on stockholders' investment in the company.

Net Monetary Assets

When prices are increasing, the holding of net monetary assets results in a loss of general purchasing power because the amount of money received upon liquidation will be in dollars of diminished value. Net monetary assets include cash, marketable securities, receivables, and fixed liabilities.

The approximate change in the stated amount of net monetary assets the company held during the year, shown separately in the accompanying supplemental data, has been measured by the change during 1980 in the Consumer Price Index. Funds available for distribution to stockholders are not affected.

Increases in Current Cost of Carrier Operating Property

Under accounting for current cost, increases in specific prices of properties held during the year are not included in net income but are presented separately. The increase for current cost is reduced by the effect of general inflation measured by applying the annual rate of change in the Consumer Price Index to the average current cost balances of carrier operating property.

At December 31, 1980 and December 31, 1979, the historical cost of carrier operating property, net of accumulated depreciation, was \$217 million and \$223 million respectively. Current cost of carrier operating property, net of accumulated depreciation, at those dates was \$293 million, and \$302 million.

The change in specific prices (current cost) on carrier operating property held during 1980, after adjustments for additions, disposals, and depreciation expense, was an increase of \$23 million. The effects of general inflation on carrier operating property held during 1980 was an increase of \$35 million, indicating that the effect of increases in general inflation exceeded that effect of increases in the specific prices on the company's carrier operating property by \$12 million.

For 1979, as restated in average 1980 dollars, the effect of increases in specific prices on carrier operating property held during the year was \$56 million, and the effect of general inflation was an increase of \$40 million, yielding a net excess in specific prices over increases in general inflation of \$16 million.

Current Cost Measurements

The current cost of carrier operating property was estimated using: for structures, a component costing model developed specifically for use by major trucking companies; for revenue equipment, autos and computer equipment, quoted prices from manufacturers; for other operating equipment, indices developed specifically for use by major trucking companies; and for land, an appraisal by an independent appraisal service.

Leases

A transition period ending after 1980 provides for the retroactive adoption of FASB Statement No. 13, "Accounting for Leases." However, certain "as if" disclosures relating to pre-1977 leases are required. Examples of disclosures of leases in notes to financial statements in surveyed reports are included below.

EXAMPLES Disclosure of lease commitments

PEPSICO, INC.
(Notes to Financial Statements)

Leases and Commitments

PepsiCo and its subsidiaries have noncancellable commitments for rental of restaurant facilities, office space, plant and warehouse facilities, transportation equipment and other personal property under both capital and operating leases. Certain franchised restaurants are leased and subsequently subleased to franchisees. Lease commitments on capital and operating leases expire at various dates to 2014 and 2015, respectively. Following is an analysis of leased property under capital leases by major classes at December 27, 1980 and December 29, 1979.

	1980	1979
	(in thousands)	
Buildings	\$177,944	\$178,253
Machinery and equipment	9,166	8,539
	<u>187,110</u>	<u>186,792</u>
Less accumulated amortization	64,398	57,740
	<u>\$122,712</u>	<u>\$129,052</u>

Following is a schedule by year of future minimum lease commitments and sublease receivables under all noncancellable leases (in thousands):

	Commitments		Sublease Receivables	
	Capital	Operating	Direct Financing	Operating
1981	\$ 26,613	\$ 42,863	\$ (3,774)	\$ (4,569)
1982	25,538	37,809	(3,720)	(4,418)
1983	24,274	31,699	(3,721)	(4,283)
1984	23,291	27,012	(3,733)	(3,950)
1985	22,507	23,353	(3,744)	(3,799)
Later years	218,465	166,202	(33,972)	(27,887)
Total minimum lease commitments (receivables)	<u>\$340,688</u>	<u>\$328,938</u>	<u>\$(52,664)</u>	<u>\$(48,906)</u>

The present value of minimum lease payments for capital leases amounts to \$168,796,000 after deducting \$5,289,000 for estimated executory costs (taxes, maintenance and insurance) and \$166,603,000 representing imputed interest. The present value of minimum sublease receivables amounts to \$24,838,000 after deducting \$27,826,000 of unearned income. Total rental expense for all operating leases for years ended December 27, 1980, December 29, 1979 and

December 30, 1978 was \$76,208,000, \$57,549,000 and \$47,434,000, respectively. Total rental income from all operating subleases for years ended December 27, 1980, December 29, 1979 and December 30, 1978 was \$6,693,000, \$5,953,000 and \$5,255,000, respectively.

At December 27, 1980, PepsiCo and its subsidiaries were contingently liable under guarantees aggregating \$75,000,000.

94 Other Noteworthy Disclosures

INTERSTATE MOTOR FREIGHT SYSTEM (Notes to Financial Statements)

Leases

Interstate is lessee of various buildings (principally freight terminals and repair shops), vehicles (principally trucks, tractors, trailers, etc.) and data processing equipment under numerous leases. Several of the leases for buildings include options to renew for periods ranging from 1 to 20 years and, effective at various dates, options under which Interstate may purchase buildings for amounts approximating their cost. All noncancelable leases with terms greater than one year have been classified as either capital leases or operating leases under the provisions of Financial Accounting Standards Board Statement No. 13.

Carrier operating property includes the following amounts for capital leases (in thousands):

	January 3, 1981	December 29, 1979
Buildings	\$12,160	\$13,545
Trucks, tractors, trailers, etc.	-0-	881
	<u>12,160</u>	<u>14,426</u>
Less allowances for amortization	(9,004)	(10,600)
	<u>\$ 3,156</u>	<u>\$ 3,826</u>

Future minimum payments, by year and in the aggregate, under the capital leases and noncancelable operating leases with initial or remaining terms of one year or more consisted of the following at January 3, 1981 (in thousands):

	Capital Leases	Operating Leases
1981	\$ 941	\$ 3,172
1982	928	2,483
1983	792	1,874
1984	617	1,390
1985	559	961
Thereafter	2,099	5,672
Total minimum lease payments	<u>\$5,936</u>	<u>\$15,552</u>
Executory costs	(17)	
Imputed interest (rates ranging from 4.5% to 9.0%)	(1,262)	
Present value of net minimum lease payments	4,657	
Less current portion	(675)	
	<u>\$3,982</u>	

Rental expense for all operating leases was \$4,500,000 in 1980, \$3,600,000 in 1979 and \$3,500,000 in 1978. Minimum future rentals receivable under various subleases for capital and noncancelable operating leases at January 3, 1981 amounted to \$457,000 and \$393,000, respectively.

Reporting for segments of a business enterprise

FASB Statement No. 14, "Financial Reporting for Segments of a Business Enterprise," applies to all publicly-held "business enterprises" and requires those doing business in more than one industry to report revenue, income, and asset data about each significant industry segment. Companies also must report on their foreign operations, their export sales, and their dependence on one or more major customers. The impact of this Statement on surveyed companies was limited. Companies having significant noncarrier operations generally disclosed data about industry segments while other surveyed companies generally considered themselves to be in one industry. Examples of disclosures noted are provided below.

EXAMPLES Disclosure of business segment information

ARKANSAS BEST CORPORATION (Notes to Financial Statements)

Business Segment Data

The Company operates principally in three industries; motor carrier, furniture manufacturing and tire operations. The motor carrier operations include freight transportation services as a common carrier and as a carrier of special commodities and import-export container cargo between ports and

inland points. These services are provided to a wide range of customers in various industries. The furniture manufacturing operations include lines of tables, desks, bedroom and dining room groups, upholstered chairs, sofas and sleepers, and leisure time furnishings for the home, which are sold to independent local dealers as well as regional and national accounts. The tire operations include the cold-cap retreading of truck tires and the sale of new tires for trucks and automobiles.

Intersegment sales are not significant. Operating profit is total revenue less operating expenses, excluding interest. Identifiable assets by business segment include both assets directly identified with those operations and an allocable share of jointly used assets. General corporate assets consist primarily of cash and other investments.

The following information reflects selected business segment data (information relative to revenues is reflected in the consolidated statements of operations):

	1980	1979	1978
Operating Profit (Loss)			
Motor carrier	\$ 13,575,173	\$ (4,028,658)	\$ 10,605,951
Furniture manufacturing	4,161,114	6,810,860	6,471,574
Tire operations	2,591,847	1,457,517	913,218
Other	804,498	1,037,301	380,046
Total Operating Profit	21,132,632	5,277,020	18,370,789
Interest expense	10,383,159	9,399,993	2,634,712
Income (Loss) Before Income Taxes and Extraordinary Charge	<u>\$ 10,749,473</u>	<u>\$ (4,122,973)</u>	<u>\$ 15,736,077</u>
Identifiable Assets			
Motor carrier	\$117,094,055	\$136,189,411	\$137,388,091
Furniture manufacturing	35,655,100	35,243,480	35,103,849
Tire operations	9,447,829	6,129,865	5,160,753
Other	1,868,580	2,685,179	2,968,139
	164,065,564	180,247,935	180,620,832
General corporate assets	260,781	1,452,952	2,019,140
Total Assets	<u>\$164,326,345</u>	<u>\$181,700,887</u>	<u>\$182,639,972</u>
Depreciation and Amortization Expense			
Motor carrier	\$ 13,870,451	\$ 15,113,872	\$ 7,898,072
Furniture manufacturing	1,439,675	1,223,459	910,238
Tire operations	426,677	259,488	383,732
Other	70,813	225,967	198,491
	<u>\$ 15,807,616</u>	<u>\$ 16,822,786</u>	<u>\$ 9,390,533</u>
Capital Expenditures			
Motor carrier	\$ 25,541,096	\$ 24,385,870	\$ 16,314,857
Furniture manufacturing	1,503,682	2,825,719	3,261,096
Tire operations	1,207,374	1,919,420	95,095
Other	317,924	830,126	418,889
	<u>\$ 28,570,076</u>	<u>\$ 29,961,135</u>	<u>\$ 20,089,937</u>

MAYFLOWER CORPORATION
(Notes to Financial Statements)

Segments of Business

For the years ended December 31,

1980	Long Distance Moving	International & Special Products	Warehousing (Local Moving & Storage)	Equipment Services	Intersegment Eliminations	Consolidated
Revenue	<u>\$172,940,058</u>	<u>\$63,546,343</u>	<u>\$24,677,618</u>	<u>\$10,216,079</u>		<u>\$271,380,098</u>
Operating profit (loss)	<u>\$ 2,628,738</u>	<u>\$ 1,924,469</u>	<u>\$ (970,995)</u>	<u>\$ 973,752</u>		<u>\$ 4,555,964</u>
Interest expense						(2,231,778)
Other, net						545,838
Income before Federal income taxes						<u>\$ 2,870,024</u>
Depreciation & amortization	<u>\$ 1,852,258</u>	<u>\$ 977,731</u>	<u>\$ 1,151,791</u>	<u>\$ 540,438</u>		<u>\$ 4,522,218</u>
Capital expenditures	<u>\$ 2,763,263</u>	<u>\$ 1,060,826</u>	<u>\$ 1,123,596</u>	<u>\$ 122,761</u>		<u>\$ 5,070,446</u>
Identifiable assets at December 31, 1980	<u>\$ 44,297,052</u>	<u>\$11,497,507</u>	<u>\$ 9,814,405</u>	<u>\$11,828,069</u>	<u>\$ (6,212,548)</u>	<u>\$ 71,224,485</u>

(continued)

96 Other Noteworthy Disclosures

	Long Distance Moving	International & Special Products	Warehousing (Local Moving & Storage)	Equipment Services	Intersegment Eliminations	Consolidated
1979						
Revenue	<u>\$171,224,326</u>	<u>\$52,096,870</u>	<u>\$ 22,834,659</u>	<u>\$ 9,952,109</u>		<u>\$256,107,964</u>
Operating profit	<u>\$ 2,651,895</u>	<u>\$ 1,959,380</u>	<u>\$ 490,788</u>	<u>\$ 1,030,104</u>		<u>\$ 6,132,167</u>
Interest expense						<u>(1,750,020)</u>
Other, net						<u>863,778</u>
Income before Federal income taxes						<u>\$ 5,245,925</u>
Depreciation & amortiza- tion	<u>\$ 1,683,224</u>	<u>\$ 718,139</u>	<u>\$ 910,388</u>	<u>\$ 472,793</u>		<u>\$ 3,784,544</u>
Capital expenditures	<u>\$ 1,994,136</u>	<u>\$ 1,163,758</u>	<u>\$ 1,079,365</u>	<u>\$ 3,383,623</u>		<u>\$ 7,620,882</u>
Identifiable assets at December 31, 1979	<u>\$ 46,085,507</u>	<u>\$15,623,698</u>	<u>\$ 12,480,193</u>	<u>\$11,709,129</u>	<u>\$(6,588,400)</u>	<u>\$ 79,310,127</u>
1978						
Revenue	<u>\$146,202,872</u>	<u>\$38,056,427</u>	<u>\$ 14,541,745</u>	<u>\$ 7,912,345</u>		<u>\$206,713,389</u>
Operating profit	<u>\$ 2,780,572</u>	<u>\$ 1,282,589</u>	<u>\$ 418,445</u>	<u>\$ 884,996</u>		<u>\$ 5,366,602</u>
Interest expense						<u>(654,133)</u>
Other, net						<u>690,743</u>
Income before Federal income taxes						<u>\$ 5,403,212</u>
Depreciation & amortiza- tion	<u>\$ 1,348,499</u>	<u>\$ 385,491</u>	<u>\$ 530,001</u>	<u>\$ 69,338</u>		<u>\$ 2,333,329</u>
Capital expenditures	<u>\$ 3,117,758</u>	<u>\$ 549,722</u>	<u>\$ 618,140</u>	<u>\$ 170,912</u>		<u>\$ 4,456,532</u>
Identifiable assets at December 31, 1978	<u>\$ 34,069,343</u>	<u>\$ 8,853,402</u>	<u>\$ 7,607,079</u>	<u>\$ 7,962,185</u>	<u>\$(3,676,000)</u>	<u>\$ 54,816,009</u>

The Long Distance Moving segment operates as a common carrier of household goods moving under IEC authority. International/Special Products is engaged in the shipment of international household goods domestic military moves, electronic and trade show products and freight forwarding. Local moving, storage and hauling comprise the services provided by the Warehouse Division. The Equipment Services segment sells and finances transportation equipment to Mayflower agents and contract truckmen and operates a vehicle maintenance shop.

Intersegment revenue is recorded at cost. Operating profit represents total revenue less operating expenses. In computing operating profit, interest expense, gains on sale of real estate and income taxes have not been included. The net book value of the corporate headquarters building is allocated to each segment's identifiable assets on a square footage basis.

No single customer accounts for 10% or more of consolidated revenue and export sales to foreign unaffiliated customers are immaterial to consolidated revenue.

T.I.M.E.-DC, INC.
(Notes to Financial Statements)

Business Segment Data

The Company operates in the motor carrier and retail and service industries. The motor carrier operations represent freight transportation services as a general and special commodities carrier. The retail and service operations include tire recapping and retail sales of truck and passenger tires and related products.

Intersegment sales are recorded at prevailing market prices. Operating profit is total revenue less operating expenses, excluding interest and gains on disposition of property and equipment. Identifiable assets are those that are used in the Company's operations in each segment.

	Motor Carrier			Retail And Service		
	1980	1979	1978	1980	1979	1978
	(In Thousands of Dollars)					
Revenues:						
Sales to unaffiliated customers	\$156,210	\$169,736	\$169,558	\$16,176	\$18,350	\$ 7,516
Intersegment sales	-	-	-	2,627	2,708	3,592
Total Revenues	<u>\$156,210</u>	<u>\$169,736</u>	<u>\$169,558</u>	<u>\$18,803</u>	<u>\$21,058</u>	<u>\$11,108</u>
Operating Profit	\$ 2,476	\$ 4,293	\$ 6,770	\$ 97	\$ 406	\$ 644
Other Expense	3,580	1,845	251	626	513	186
Earnings (loss) before income taxes (credit) and extraordinary item	<u>\$ (1,104)</u>	<u>\$ 2,448</u>	<u>\$ 6,519</u>	<u>\$ (529)</u>	<u>\$ (107)</u>	<u>\$ 458</u>
Depreciation and amortization	\$ 5,720	\$ 5,780	\$ 6,217	\$ 211	\$ 199	\$ 82
Capital Expenditures	\$ 717	\$ 11,532	\$ 8,350	\$ 293	\$ 497	\$ 582
Identifiable Assets	<u>\$ 78,902</u>	<u>\$ 95,336</u>	<u>\$ 87,430</u>	<u>\$11,142</u>	<u>\$12,996</u>	<u>\$ 9,862</u>

	Eliminations			Consolidated		
	1980	1979	1978	1980	1979	1978
Revenues:						
Sales to unaffiliated customers	\$ -	\$ -	\$ -	\$172,386	\$188,086	\$177,074
Intersegment sales	2,627	2,708	3,592	-	-	-
Total Revenues	<u>\$2,627</u>	<u>\$2,708</u>	<u>\$3,592</u>	<u>\$172,386</u>	<u>\$188,086</u>	<u>\$177,074</u>
Operating Profit	\$ -	\$ -	\$ -	\$ 2,573	\$ 4,699	\$ 7,414
Other Expense	-	-	-	4,206	2,358	437
Earnings (loss) before income taxes (credit) and extraordinary item	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,633)</u>	<u>\$ 2,341</u>	<u>\$ 6,977</u>
Depreciation and amortization	\$ -	\$ -	\$ -	\$ 5,931	\$ 5,979	\$ 6,299
Capital Expenditures	\$ -	\$ -	\$ -	\$ 1,010	\$ 12,029	\$ 8,932
Identifiable Assets	<u>\$6,952</u>	<u>\$9,960</u>	<u>\$6,765</u>	<u>\$ 83,092</u>	<u>\$ 98,372</u>	<u>\$ 90,527</u>

Transactions with affiliates and related parties

Statement on Auditing Standards (SAS) No. 6, "Related Party Transactions," requires financial statement disclosure regarding related party transactions, which are material individually or in the aggregate. Examples of such disclosures noted in the surveyed companies' reports are provided below.

EXAMPLES Related party transaction disclosures

ATLAS VAN LINES, INC.
(Notes to Financial Statements)

Related Party Transactions

During the last quarter of 1979, the Company entered into an agreement to purchase all the stock of a corporation whose sole asset consisted of a state-wide Texas authority from a principal stockholder. The purchase price was to be based on a formula tied to future revenues or future profits. The results of the operations of this corporation from the date of acquisition were included in the 1979 financial statements. Subsequent to December 31, 1980, the agreement was construed by Company counsel to be an agreement to purchase rather than an agreement of purchase; consequently, the corporation was not included in the 1980 consolidated financial statements. The above transactions do not have a material effect on either the 1980 or 1979 financial statements.

The stockholders and certain directors of the Company are its agents in the used household goods business. These agents account for a substantial portion of the operating revenue of the Company. The rate schedules used to compensate these agents are the same as those used in determining compensation of all other agents of the Company.

NEW PENN MOTOR EXPRESS, INC.
(Notes to Financial Statements)

Transactions With Affiliates

Accounting and legal fees totaling approximately \$91,185, \$83,050 and \$67,750 in 1980, 1979 and 1978, respectively, were paid to firms in which certain directors have financial interests.

CONSOLIDATED FREIGHTWAYS, INC.
(Notes to Financial Statements)

Related Party Transactions

Finance receivables include certain contracts for which the finance charge is subsidized by an affiliate. The present value of the finance charge is paid to the Company at the time the contract is acquired and recorded as deferred rate subsidy income. This deferred income is amortized monthly based on the declining principal balance of the receivable.

Receivables from affiliates at December 31, 1980 included \$3,100,000 at 12-1/2% interest advanced to Consolidated Freightways, Inc. "Other Income" includes interest of \$956,927 on such advances.

During 1980, \$154,552, was charged by an affiliate for insurance coverage and computer services. During 1979, \$93,486 was charged by an affiliate for insurance coverage, computer services and for office space that was leased for a portion of the year. In 1978, \$139,535 was charged by an affiliate for insurance coverage, leased office space and for computer services. Also, a management fee of \$42,000 in 1980, \$36,000 in 1979 and \$25,002 in 1978 was paid to Consolidated Freightways, Inc.

Acquisitions

EXAMPLES Disclosure of acquisitions

ALLIED VAN LINES, INC.
(Notes to Financial Statements)

Acquisition

On January 26, 1979, the Company acquired, in a purchase transaction, all of the outstanding shares of Elefeld Chicago Furniture Service, Inc. for \$794,000 consisting of a note payable to the former stockholders of Elefeld in the amount of \$754,000 and the remainder in cash. The excess of cost over the net assets of Elefeld was capitalized as operating rights.

The accompanying consolidated financial statements include the results of operations for Elefeld from the date of acquisition. The results of operations for Elefeld were not material to the consolidated statements of income.

NEW PENN MOTOR EXPRESS, INC.
(Notes to Financial Statements)

On February 21, 1980, the Company entered into an agreement for the acquisition of the intrastate motor carrier operating rights of Reading Transportation Company and Pittsburgh-Philadelphia Transportation Company. The purchase price for these operating rights totaled \$850,000 of which \$115,000 was placed in an escrow account pending final settlement. The acquisition was subject to, among other things, the approval of the Pennsylvania Public Utility Commission (P.U.C.) of the permanent application by September 30, 1980. Such approval was not granted until December 31, 1980. Accord-

ingly, on October 1, 1980, the Company proceeded to exercise its option to terminate the agreement and, at the same time, continued to operate under the temporary authority previously issued by the P.U.C. Since that time the Company has been negotiating a settlement for a reduced purchase price.

REFRIGERATED TRANSPORT CO., INC.
(Notes to Financial Statements)

Acquisition of Commercial Contract Carrier, Inc.

During 1978, the Company acquired Commercial Contract Carrier, Inc. and its wholly-owned subsidiary, Coastal Transport and Trading Co. a heavy hauler located in Savannah, Georgia.

The Company had been operating, under temporary authority, Commercial Contract Carrier, Inc. and its subsidiary since June 1977. As of August 7, 1978, the results of operations of Commercial and Coastal have been consolidated with those of the parent company.

Certain information with respect to the acquisition is summarized below:

Cost allocated to the assets acquired:	
Net current assets	\$139,000
Property and equipment	22,000
Operating rights	500,000
Total cost of assets acquired	661,000
Less long-term debt and other long-term liabilities of the purchased business assumed	71,000
	590,000
Less net current assets acquired	139,000
Use of working capital in connection with the purchase	<u>\$451,000</u>

Had the Company purchased Commercial Contract Carrier, Inc. as of the beginning of the fiscal year 1978, its revenues would have been \$99,945,000 instead of \$98,717,000 and its net earnings would have been \$1,719,000 (\$1.39 per share) instead of \$1,814,000 (\$1.47 per share) as reported for the year ended December 31, 1978.

Operation of company under temporary authority

EXAMPLE Disclosure of temporary authority operation of a company

MCLEAN TRUCKING COMPANY
(Notes to Financial Statements)

Acquisitions

On March 1, 1979, the Company entered into an agreement to purchase substantially all those assets of ROCOR International comprising its general commodity motor carrier business (known as O.N.C. Freight Systems) and to assume certain related liabilities. The net purchase price is estimated to be \$18,710,000, subject to final determination as provided by the agreement, and will consist of cash and promissory notes. Effective May 1, 1979, the Interstate Commerce Commission granted the Company temporary authority to operate the business. On May 16, 1980, the ICC gave approval to the purchase in an initial decision pertaining to the grant of permanent authority; however, ROCOR International has appealed certain of the conditions which were imposed. Resolution of the appeal is necessary before the transaction can be consummated.

The consolidated financial statements include the operations of the acquired business from May 1, 1979. The Company has made substantial changes in the operations of the business acquired. Because of the significance of these changes, it is impractical to estimate what the results of operations of the combined businesses would have been for the year ended June 30, 1979, assuming the purchase had taken place on July 1, 1978.

Assets acquired and liabilities assumed from the purchase were as follows:

Tangible property	\$35,883,000
Operating authority	1,850,000
Other assets	577,000
Long-term debt	(16,233,000)
Working capital	(3,367,000)
	<u>\$18,710,000</u>

Discontinued operations

The reports that included reference to discontinued operations followed the requirements of APB Opinion No. 30, "Reporting the Results of Operations." Income or loss from discontinued operations was shown in a section on the income statement below earnings from continuing operations with a reference to the footnotes to the financial statements.

EXAMPLES Disclosures related to discontinued operations

FLEXI-VAN CORPORATION (Statement of Income)

	1980	1979	1978
Income From Continuing Operations Before Income Taxes and Extraordinary Charge	\$24,470,000	\$38,416,000	\$31,478,000
Provision for Federal and State Income Taxes:			
Current	350,000	(1,290,000)	266,000
Deferred	4,725,000	3,300,000	8,615,000
	<u>5,075,000</u>	<u>2,010,000</u>	<u>8,881,000</u>
Income From Continuing Operations Before Extraordinary Charge	<u>19,395,000</u>	<u>36,406,000</u>	<u>22,597,000</u>
Discontinued Operations (Note 6):			
Loss from operations of Flexi-Van Truck Rental Division	(3,369,000)	(10,302,000)	(2,914,000)
Loss on disposal, including provision of \$2,300,000 for operating losses during the phase-out period	(18,000,000)	-	-
Applicable income tax effect	4,133,000	536,000	822,000
	<u>(17,236,000)</u>	<u>(9,766,000)</u>	<u>(2,092,000)</u>
Income Before Extraordinary Charge	<u>2,159,000</u>	<u>26,640,000</u>	<u>20,505,000</u>
Extraordinary Charge	<u>(1,753,000)</u>	<u>-</u>	<u>-</u>
Net Income	<u>\$ 406,000</u>	<u>\$26,640,000</u>	<u>\$20,505,000</u>

(Notes to Financial Statements)

6. Discontinued Operations

In July 1980 the Company's Board of Directors authorized the discontinuance of operations and sale of the assets of its Flexi-Van Truck Rental Division ("the Division") under a plan which has been substantially completed. The Company made provisions, net of applicable income tax effect, in the amounts of \$13,785,000 in the second quarter and \$790,000 in the fourth quarter for its loss on disposal (including operations during the phase-out period) of the Division.

The accompanying Consolidated Statements of Income for 1979 and 1978 have been reclassified to remove the amounts relating to the Division from the natural revenue and expense classifications. The revenues attributable to the Division were \$15,114,000, \$34,173,000 and \$38,217,000 for the years ended December 31, 1980, 1979 and 1978, respectively.

CHEMICAL LEAMAN CORPORATION
(Statements of Earnings and Retained Earnings)

	1980	1979	1978
Earnings from continuing operations before income taxes and extraordinary item	\$4,414,000	\$4,969,000	\$10,611,000
Income taxes	1,334,000	1,506,000	3,491,000
Earnings from continuing operations	3,080,000	3,463,000	7,120,000
Discontinued operations—earnings (loss)	248,000	854,000	(39,000)
Earnings before extraordinary charge	3,328,000	4,317,000	7,081,000
Extraordinary charge—operating rights	(4,800,000)	-	-
Net earnings (loss)	(1,472,000)	4,317,000	7,081,000

(Notes to Financial Statements)

Discontinued Operations

On February 2, 1981, the Company sold its interest in Chemical Leasing Corporation, a subsidiary engaged in full service leasing. The sale will result in a gain which will be reflected in 1981. Prior period financial statements have been reclassified to reflect these leasing activities as a discontinued operation.

The results of discontinued operations consist of the following:

	1980	1979	1978
Revenue	\$6,887,000	\$4,473,000	\$2,608,000
Expenses	6,647,000	4,227,000	2,301,000
Earnings before taxes	240,000	246,000	307,000
Income taxes	(8,000)	(88,000)	346,000
Earnings (loss) before effect of change in method of apportionment of consolidated income taxes	248,000	334,000	(39,000)
Cumulative effect of change in method of apportionment of consolidated income taxes	-	520,000	-
Net earnings (loss)	\$ 248,000	\$ 854,000	\$ (39,000)

Net earnings were \$188,000 from August 11, 1980, the determination date of the sale, to December 31, 1980.

The net assets of discontinued operations included in the consolidated balance sheet as of December 31, 1980 and 1979 have been classified as "net current liabilities and net noncurrent assets of discontinued operations", and consist of the following:

	1980	1979
Current assets	\$ 1,642,000	\$1,395,000
Current liabilities	(4,827,000)	(1,564,000)
Net current liabilities	<u>\$(3,185,000)</u>	<u>\$ (169,000)</u>
Leasing and other equipment	\$10,301,000	\$7,639,000
Other assets	12,000	27,000
Long-term debt	(3,829,000)	(5,311,000)
Deferred income tax	(789,000)	(786,000)
Net noncurrent assets	<u>\$ 5,695,000</u>	<u>\$1,569,000</u>

Stock options

Accounting Research Bulletin No. 43, Chapter 13, and APB Opinion No. 25, "Accounting for Stock Issued to Employees," require disclosures about the status of any stock option plans at the balance sheet date and disclosures of any activity during the period.

EXAMPLES Stock option disclosure

PRESTON TRUCKING COMPANY, INC.
(Notes to Financial Statements)

Stock Options

38,000 shares of common stock are reserved for issuance under a qualified stock option plan approved in 1975. No options were granted or exercised during 1980, and as of December 31, 1980, options for a total of 38,000 shares are outstanding at prices of \$16.25 and \$21.75 per share. The options become exercisable on the date of grant at the market value at that date and expire on various dates through May 24, 1984.

COASTAL INDUSTRIES, INC.
(Notes to Financial Statements)

Stock Option Plan

The Corporation has a non-qualified Stock Option Plan covering 60,000 shares of Common Stock which was adopted in 1974. All of the options have been granted to certain officers of the Corporation at fair market value of the stock at date of grant. The options are exercisable and remain outstanding for a period not to exceed 10 years from the date of grant. A summary of transactions under the Stock Option Plan follows:

Options	Number of Shares	Option Price	
		Per Share	Total
Outstanding and exercisable at October 1, 1978	60,000	\$3.50 to \$3.75	\$214,635
Activity during 1979:			
Exercised	11,000	\$3.50 to \$3.75	40,125
Cancelled	7,100	\$3.50 to \$3.75	25,615
	<u>18,100</u>		<u>65,740</u>
Outstanding and exercisable at September 30, 1979	41,900	\$3.50 to \$3.75	148,895
Activity during 1980:			
Cancelled	<u>2,100</u>	\$3.50 to \$3.75	<u>7,620</u>
Outstanding and exercisable at September 30, 1980	<u>39,800</u>		<u>\$141,275</u>

Subsequent events

SAS No. 1, Section 560.06 requires the disclosure of any events subsequent to the balance sheet date which would make the financial statements misleading if not disclosed. Such events would include, but are not limited to, the following: sale of a bond or capital stock issue, acquisition of a business, litigation arising against the company, catastrophe losses, and losses on receivables resulting from conditions arising after the balance sheet date. An example of subsequent events disclosed by one surveyed company in its notes to financial statements is shown below.

EXAMPLE Disclosure of subsequent events

T.I.M.E.-DC, INC.
(Notes to Financial Statements)

Subsequent Event

NLI Corporation (NLI) was incorporated on December 31, 1980, as a wholly-owned subsidiary of the Company. The Company contributed substantially all

of its land, terminal facilities and certain other assets to NLI and NLI may assume certain long-term liabilities of the Company. The Company also entered into three-year leases for the terminal facilities which are cancellable at the option of the Company with six months notice.

NLI has filed a preliminary Registration Statement with the Securities and Exchange Commission. The Company intends to distribute all outstanding shares of NLI to the holders of its common stock provided all conditions are met as soon as practicable after the Registration Statement becomes effective.

Regulatory matters

As required by the ICC, motor carriers must disclose material differences in net income that result from using GAAP rather than regulations promulgated by the ICC.

EXAMPLES Regulatory matters

COASTAL INDUSTRIES, INC.
(Notes to Financial Statements)

Regulatory Matters

The Corporation is a holding company whose principal subsidiary is a motor common carrier of liquid and dry bulk commodities in tank vehicles and, as such, operates solely in the transportation industry.

The Corporation and certain of its subsidiaries are subject to the accounting regulations of the Interstate Commerce Commission. If the accompanying financial statements had been prepared in accordance with Interstate Commerce Commission regulations, the net loss in 1980 would have been greater than herein reported by \$100,228 and net income in 1979 would have been greater than herein reported by \$60,175. Differences result primarily from accounting for equipment repairs and operating rights.

ROADWAY EXPRESS, INC.
(Notes to Financial Statements)

Regulatory Matters

The company is a motor common carrier, subject to regulation by the Interstate Commerce Commission, and operates exclusively within the transportation industry.

Net income under Interstate Commerce Commission accounting regulations would have been lower by approximately \$1,168,000 in 1980 and greater by approximately \$2,440,000 in 1979 and \$3,072,000 in 1978 than herein reported. Differences are primarily in accounting for revenue, future equipment repairs and operating rights.

Pensions and related disclosures

The FASB's long-standing project to reconsider APB Opinion No. 8, "Accounting for the Cost of Pension Plans," is not scheduled for completion until 1982. As an interim measure, FASB Statement No. 36, "Disclosure of Pension Information," has been issued to amend the disclosure requirements of APB Opinion No. 8. The Board's objective is to increase the comparability of pension disclosures in the employers' financial statements pending completion of the project.

Statement No. 36 is effective for annual financial statements for fiscal years which began after December 15, 1979 and for complete interim financial statements within those fiscal years. Comparative financial statements for earlier years do not have to contain the new disclosures.

Existing Requirements The following disclosures, which were required by Opinion No. 8, are still required by Statement No. 36 for all pension plan sponsors:

1. A statement that pension plans exist, identifying or describing the employee groups covered.
2. A statement of the company's accounting and funding policies.
3. The provision for pension cost for the period.
4. The nature and effect of significant matters affecting comparability for all periods presented, such as changes in accounting methods (actuarial cost method, amortization of past and prior service cost, treatment of actuarial gains and losses, etc.), changes in circumstances (actuarial assumptions, etc.), or adoption or amendment of a plan.

New Requirements Statement No. 36 requires employers that sponsor pension plans to disclose the following information determined as of the most recent benefit information date (i.e., the date as of which the actuarial present value of accumulated benefits was determined) in accordance with Statement No. 35, "Accounting and Reporting by Defined Benefit Pension Plans":

1. The actuarial present value of vested accumulated plan benefits.
2. The actuarial present value of nonvested accumulated plan benefits.
3. The plans' net assets available for benefits, including any excess of the employer's accrued pension liability over the plans' contributions receivable from the employer.
4. The interest assumption used in determining the actuarial present values of vested and nonvested accumulated plan benefits.
5. The date as of which the benefit information was determined.

The new disclosures are also required for employers contributing to multi-employer defined benefit plans when the applicable information is determinable.

EXAMPLES Pension disclosure**BUCKHORN INC.**

(Notes to Financial Statements)

Pension Plans

The Company has defined benefit pension plans covering certain of its employees. Total pension expense for 1980, 1979 and 1978 was \$174,000, \$193,000, and \$245,000 respectively. Accumulated plan benefit information, as estimated by consulting actuaries as of July 1, 1980, and plan net assets are presented below:

(Thousands of Dollars)

Actuarial present value of accumulated plan benefits:	
Vested	\$ 883
Nonvested	259
	<u>\$1,142</u>
Net assets available	<u>\$1,045</u>

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7% in 1980 and 6% in 1979. In addition, the assumed rate of turnover was changed. The effect of changing these actuarial assumptions reduced 1980 pension expense by approximately \$51,000.

THE BEKINS COMPANY

(Notes to Financial Statements)

Pension Plan

The Company and its subsidiaries have a non-contributory defined benefit pension plan covering salaried and certain hourly employees. Total pension expense for 1980, 1979 and 1978 was \$1,260,000, \$1,191,000, and \$1,156,000, respectively. The Company makes annual contributions to the plan equal to amounts accrued for pension expense, including amortization of unfunded actuarial liability over 30 years. Accumulated plan benefit information, as estimated

by consulting actuaries, and plan net assets as of the latest valuation dates are as follows:

	September 30	
	1980	1979
	(Dollars in thousands)	

Actuarial present value of accumulated plan benefits:		
Vested	\$ 7,885	\$7,261
Nonvested	1,277	1,505
	<u>\$ 9,162</u>	<u>\$8,766</u>
Net assets available for benefits	<u>\$11,819</u>	<u>\$9,839</u>

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 6.5% in both 1980 and 1979.

IU INTERNATIONAL CORPORATION

(Notes to Financial Statements)

Pension Plans

The Corporation and certain of its subsidiaries have insured or trustee pension plans which generally provide for normal retirement at age 65. At January 1, 1980, the actuarial present value of vested and unvested accumulated plan benefits under these plans amounted to \$117,534,000 and \$8,603,000, respectively, and the fair value of net assets available for benefits under these plans amounted to \$117,518,000. The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 6.3%, and ranged from 5% to 8%. It is the Corporation's general policy to fund pension costs accrued, including the amortization of prior service costs, over periods not exceeding 40 years. Pension expense, with respect to these plans, charged against continuing operations during the years ended December 31, 1980, 1979 and 1978 was \$12,288,000, \$11,589,000 and \$11,376,000, respectively.

Information regarding multiemployer pension plans, to which certain subsidiaries contribute, is not currently made available to the contributing employers by the union administrators or trustees.

Reporting of quarterly results

Many SEC-registered companies are required to include quarterly information in their annual reports summarizing their operating results for the last two years. In prior years, this information was required to be included in a footnote, but new SEC rules allow the information to be presented anywhere in the shareholder report. This information includes, among other things, summarized quarterly revenue, gross profit, income, and income per share data for each quarter of the last two years. This information may be marked "unaudited" but certain review procedures must be performed by the company's independent auditors. Companies affected by these disclosure requirements are generally those listed on national stock exchanges and actively traded OTC companies. Disclosure is not required if total assets at the latest fiscal year end were less than \$200 million and income before extraordinary items for at least one of the last three years was less than \$250,000.

106 Other Noteworthy Disclosures

EXAMPLES Disclosure of quarterly financial data

BRIGGS TRANSPORTATION CO.
(Notes to Financial Statements)

Unaudited Quarterly Financial Information

All figures in thousands except per share data. No dividends have been declared during either year presented.

	Year ended December 31, 1980				
	First quarter	Second quarter	Third quarter	Fourth quarter	Year
Revenues	\$15,107	\$14,572	\$15,676	\$16,507	\$61,862
Operating income (loss)	(538)	6	686	288	442
Earnings (loss) before income taxes and extraordinary charge	(1,140)	(495)	629	(327)	(1,333)
Income taxes (credit)	(290)	100	45	(165)	(310)
Earnings (loss) before extraordinary charge	(850)	(595)	584	(162)	(1,023)
Extraordinary charge				(5,012)	(5,012)
Net earnings (loss)	(850)	(595)	584	(5,174)	(6,035)
Per share:					
Earnings (loss) before extraordi- nary charge	(.65)	(.45)	.44	(.12)	(.78)
Extraordinary charge				(3.81)	(3.81)
Net earnings (loss)	(.65)	(.45)	.44	(3.93)	(4.59)

The income tax charge in the second quarter includes \$155,000, the income tax charge in the third quarter includes a \$45,000 credit, and the income tax credit in the fourth quarter includes \$90,000, resulting from differences between the actual annual effective income tax rate and the estimated rates used through the second and third quarters.

	Year ended December 31, 1979				
	First quarter	Second quarter	Third quarter	Fourth quarter	Year
Revenues	\$17,610	\$14,929	\$16,350	\$15,983	\$64,872
Operating income (loss)	(1,818)	(675)	307	190	(1,996)
Loss before income taxes	(2,173)	(825)	(210)	(234)	(3,442)
Income taxes (credit)	(645)	(360)	(665)	125	(1,545)
Net earnings (loss)	(1,528)	(465)	455	(359)	(1,897)
Net earnings (loss) per share	(1.19)	(.35)	.35	(.27)	(1.46)

The income tax credit in the third quarter includes \$515,000, and the income tax charge in the fourth quarter includes \$230,000, resulting from differences between the actual annual effective income tax rate and the estimated rates used through the second and third quarters.

BANNER INDUSTRIES, INC.
(Notes to Financial Statements)

Quarterly Financial Data (Unaudited):

The following quarterly financial data has been prepared from the financial records of the Company without audit, and reflects all adjustments which are, in the opinion of management, necessary for a fair presentation of the results of operations for the interim periods presented.

In thousands of dollars except per share figures	Quarter Ended			
	Sept. 30 1979	Dec. 31 1979	Mar. 31 1980	June 30 1980
Net sales and revenues	\$50,667	\$49,608	\$53,158	\$55,254
Cost of sales and operating expenses	41,745	42,400	44,533	45,744
Income (loss) before taxes on income and extraordinary gain	1,639	(46)	553	3,009
Provision for taxes on income	600	(25)	220	565
Income (loss) before extraordinary gain	\$ 1,039	\$ (21)	\$ 333	\$ 2,444
Extraordinary gain on insurance settlement (net of taxes)	-	405	-	27
Net income	<u>\$ 1,039</u>	<u>\$ 384</u>	<u>\$ 333</u>	<u>\$ 2,471</u>
Net income per share:				
Before extraordinary gain	\$.26	\$ (.01)	\$.09	\$.60
Extraordinary gain on insurance settlement	-	.10	-	.01
	<u>\$.26</u>	<u>\$.09</u>	<u>\$.09</u>	<u>\$.61</u>
	Sept. 30 1978	Dec. 31 1978	Mar. 31 1979	June 30 1979
Net sales and revenues	\$41,731	\$45,670	\$49,647	\$50,076
Cost of sales and operating expenses	33,608	37,178	40,845	42,624
Income before taxes on income and cumulative effect of change in accounting principle	2,222	2,248	2,014	539
Provision for taxes on income	1,020	1,030	760	(510)
Income before cumulative effect of change in accounting principle	\$ 1,202	\$ 1,218	\$ 1,254	\$ 1,049
Cumulative effect of change in accounting for tires	264	-	-	-
Net income	<u>\$ 1,466</u>	<u>\$ 1,218</u>	<u>\$ 1,254</u>	<u>\$ 1,049</u>
Net income per share:				
Before cumulative effect of change in accounting principle	\$.30	\$.30	\$.31	\$.26
Cumulative effect of change in accounting principle	.07	-	-	-
	<u>\$.37</u>	<u>\$.30</u>	<u>\$.31</u>	<u>\$.26</u>

The extraordinary gain on insurance settlement is included in income in the periods when the insurance settlements were concluded. Operating results beginning in the second quarter of 1980 have been adversely affected by the decline in motor freight tonnage associated with the recessionary climate which exists in much of the nine-state area served by the Company's motor freight carrier.

The Company changed its method of accounting for non-radial tires on revenue equipment in the fourth quarter of 1979. The cumulative effect of this change on prior years, net of related income taxes, is included in income in the first quarter of 1979.

Fourth quarter 1979 earnings were adversely affected by the trucking industry work stoppage in April, 1979. The provision for taxes on income in the fourth quarter of 1979 is a credit because of the reduction of the effective Federal income tax rate from interim estimates caused by lower operating income and the proportionately higher tax credits available.

108 Other Noteworthy Disclosures

IU INTERNATIONAL CORPORATION (Notes to Financial Statements)

Quarterly Operating Results (Unaudited)

The following is a summary of the unaudited quarterly operating results for the two years ended December 31, 1980:

In thousands	Revenues and other income	Cost of products sold, other operating costs and expenses	Earnings from continuing operations	Net earnings (loss)
For 1980:				
1st quarter	\$ 570,262	\$ 423,940	\$26,110	\$ 39,722
2nd quarter	547,338	431,645	13,366	105,348
3rd quarter	553,494	430,360	15,100	(16,180)
4th quarter	590,132	452,310	21,481	15,809
Full year	<u>\$2,261,226</u>	<u>\$1,738,255</u>	<u>\$76,057</u>	<u>\$144,699</u>
For 1979:				
1st quarter	\$ 509,998	\$ 394,874	\$12,032	\$ 20,677
2nd quarter	513,468	407,290	9,315	18,083
3rd quarter	551,069	435,782	14,449	14,354
4th quarter	554,182	433,422	13,706	13,906
Full year	<u>\$2,128,717</u>	<u>\$1,671,368</u>	<u>\$49,502</u>	<u>\$ 67,020</u>

Total foreign currency adjustments, including discontinued operations, resulted in gains (losses) of \$5,498,000, \$(9,835,000), \$(86,000), and \$489,000 in the four quarters ended December 31, 1980 and \$(6,807,000), \$(1,550,000), \$(4,076,000) and \$(1,068,000) in the four quarters ended December 31, 1979.

The first quarter of 1980 includes a significant gain realized on the liquidation of forward contracts to sell silver.

The first quarter of 1979 includes the gain on the sale of a water utility property and the third quarter of 1979 includes a \$4,000,000 provision for loss on the disposition of a dental supply company.

Quarterly earnings per share do not total full year earnings per share because outstanding shares were reduced in June 1980 as a result of the exchange transaction and because of the anti-dilutive effect of convertible securities. Earnings per share assuming full dilution is not reported for the third quarter of 1980 because of the anti-dilutive effect of convertible securities.

Litigation

EXAMPLES Disclosure of litigation

CONSOLIDATED FREIGHTWAYS, INC. (Notes to Financial Statements)

Contingencies

The Company and its subsidiaries are defendants in various lawsuits incidental to their businesses. Based on opinions from counsel retained to defend these actions, management believes the ultimate liability of the Company, if any, will not be material.

A subsidiary of the Company, in the normal course of its business, has agreed under certain conditions to purchase certain assets from companies providing financing to dealers in the event the dealers are unable to meet their obligations. In addition, the subsidiary has agreed under certain conditions to pay all or a portion of net repossession losses incurred under financing arrangements with retail customers. In the opinion of management, any losses which may occur as a result of these commitments will not be material.

	Earnings (loss) per share			
	Primary		Assuming full dilution	
	Continuing operations	Net	Continuing operations	Net
For 1980:				
1st quarter	\$.72	\$1.11	\$.67	\$1.02
2nd quarter	.42	3.41	.39	3.10
3rd quarter	.69	(.79)	.64	-
4th quarter	.97	.71	.90	.66
Full year	<u>\$2.72</u>	<u>\$5.25</u>	<u>\$2.51</u>	<u>\$4.77</u>
For 1979:				
1st quarter	\$.33	\$.59	\$.32	\$.55
2nd quarter	.25	.51	.25	.48
3rd quarter	.40	.40	.38	.38
4th quarter	.37	.38	.36	.36
Full year	<u>\$1.36</u>	<u>\$1.88</u>	<u>\$1.30</u>	<u>\$1.76</u>

ATLAS VAN LINES, INC.
(Notes to Financial Statements)

Contingent Liabilities

A foreign subsidiary, Atlas Van Lines (Canada), Ltd., is contingently liable as guarantor of the mortgage indebtedness of one of its agents in the approximate amount of \$150,000. In addition, this subsidiary, along with certain other van lines and industry associations in Canada, were charged under Section 32(1)(C) of the Combines Investigation Act. If the subsidiary were found to have violated this Act, it could be fined a maximum of \$1,000,000 and a class action suit for civil damages could result. Management believes that the charges are unfounded, and the Company fully intends to contest the allegations.

During 1980, the Office of the State Controller of the State of Texas performed a three-year audit of the parent company, Atlas Van Lines, Inc., pertaining to motor vehicle sales and use tax. On February 26, 1981, the Company received a deficiency determination notice from the State of Texas in an amount approximating \$3,500,000 for alleged non-payment of Texas use tax on vehicles operating in interstate transportation on Texas highways. On March 11, 1981, a formal petition for relief was filed by the Company requesting a timely hearing and redetermination on the issues involved. It is the opinion of management that there are numerous defenses to the allegations and, furthermore, that the ultimate effect, if any, would not have a material impact on the financial statements taken as a whole.

On March 13, 1979, former driver-operators for Incorporated Carriers, Ltd. (a subsidiary of Microtron) acting individually and purporting to act as representatives of a class composed of all drivers of Incorporated Carriers, Ltd. who leased or purchased trucks from Microtron, filed a suit against Microtron and Incorporated Carriers, Ltd., alleging that each of them agreed to lease and/or purchase a truck from Microtron and to relet the truck to Incorporated Carriers, Ltd., under an independent driver-operator agreement; that in connection therewith Microtron and Incorporated Carriers, Ltd. acting in furtherance of a conspiracy, misrepresented the condition of the trucks, the nature and purpose of the deposits and bonds required by the agreements, and the terms of the driver-operator agreement; that such misrepresentations were deceptive trade practices under the Texas business and Commerce code entitling the Plaintiffs and each member of the class to treble actual damages. The suit also seeks permanent injunction against Microtron and Incorporated Carriers, Ltd. prohibiting the lease or sale of trucks to driver-operators for use in Incorporated Carriers, Ltd.'s hauling operations. Microtron and Incorporated Carriers, Ltd. have filed responsive pleadings asserting certain procedural defenses to the allegations of the complaint. The case is presently set for trial on May 18, 1981. Legal counsel is of the opinion that this litigation should not materially impact the operations of the Company.

The Company from time to time has sundry claims, suits and other matters pending against it in the ordinary course of business, most of which are covered by insurance. The ultimate liability in these matters is undeterminable. However, in the opinion of management and the Company's in-house counsel,

they will have no materially adverse effect on the financial statements of the Company.

TELECOM CORPORATION
(Notes to Financial Statements)

Commitments and Contingencies

The Company's motor carrier subsidiary is one of numerous defendants in a class action lawsuit filed by the United States Justice Department alleging discriminatory hiring practices. That subsidiary entered into a partial consent decree in 1976 in order to avoid burdensome litigation, which was modified in July 1979 in a district court's dismissal of the government's action. In September 1979, the government filed notice of appeal of the district court's decision. Management is of the opinion that the final outcome will not adversely affect the financial position of the Company.

The Company's motor carrier subsidiary has certain liability and property damage insurance coverage which provides that the subsidiary is responsible for the first \$250,000 of claims and damages on each individual occurrence. In this connection, at December 31, 1980, the subsidiary had outstanding letters of credit aggregating \$3,870,000 as collateral for the deductible portion.

The Company, as a result of the merger with Benton-Spry, Inc. ("Benton-Spry"), which was consummated on December 31, 1975, is involved in litigation with the former principal stockholder of Hennis Freight Lines, Inc. ("Hennis"). The litigation was initiated by Benton-Spry to compel performance of various provisions of the contract relating to final settlement for the purchase by Benton-Spry of Hennis. The former principal stockholder ("the Defendant") has counterclaimed seeking various forms of relief, including rescission and/or substantial monetary damages. After a trial which began in March 1980, involving a validity of audit, the trial court rendered a decision favorable to the Company. The Defendant has filed an appeal which the Company is opposing. Counsel for the Company is unable to render an opinion as to the ultimate outcome of the case. It is the view of management that, based on facts presently known, recovery by the plaintiff, if any, should not materially affect the consolidated financial statements of the Company.

The State of Texas has notified the Company that a deficiency determination in the approximate amount of \$3,600,000 has been made by the Comptroller's Department for Motor Vehicle Use Tax during the period July 1, 1976 through June 30, 1980. The Company disputes the deficiency determination in its entirety and has filed a petition for redetermination. Three other motor common carriers have filed lawsuits involving the same type of assessments. At this time, it is impossible to determine what liability, if any, the Company may incur in this matter.

There are sundry claims pending against certain of the companies, all of which are incidental to the ordinary course of business and, in the opinion of counsel and Company management, should not result in any significant liability.

Commitments

EXAMPLES Disclosure of commitments

LYNDEN TRANSPORT, INC.
(Notes to Financial Statements)

Commitments

Future minimum lease payments for capital and operating leases that have initial or remaining noncancelable lease terms in excess of one year at December 31, 1980, are as follows:

	Capital Leases	Operating Leases Net of Noncancelable Sublease Income
1981	\$144,220	\$ 370,805
1982	144,220	192,663
1983	117,140	73,817
1984	91,608	42,888
1985	91,626	42,888
1986-1990		214,440
1991-1995		98,266
1996-2000		94,260
Remainder		105,588
Total lease payments	588,814	<u>\$1,235,615</u>
Less--Amount representing interest (using rates implicit in leases)	128,951	
Net present value of capital lease obligations	459,863	
Less--Current portion Long-term capital lease obligations	99,942	
	<u>\$359,921</u>	

The Company was obligated under a number of operating leases for various terminal facilities and equipment. Substantially all of the terminal facilities include renewal options. Rent expense was approximately \$2,819,000 in 1980, \$2,346,000 in 1979, and \$1,766,000 in 1978, net of sublease income of \$55,000 in 1980, \$26,000 in 1979, and \$38,000 in 1978. These expenses do not include payments made to independent contractors who provide services with the use of revenue equipment.

Interest capitalization

FASB Statement No. 34, "Capitalization of Interest Cost," was to be applied prospectively in fiscal years beginning after December 15, 1979. The Statement requires capitalizing interest as part of the historical cost of acquiring certain assets. Assets qualifying for interest capitalization generally are those that require a period of time to get them ready for their intended use. Examples of qualifying assets are those constructed for an entity's own use (e.g., a manufacturing facility) or those intended for sale or lease that are constructed as discrete projects (e.g., ships or real estate projects). Interest should not be

MURPHY MOTOR FREIGHT LINES, INC.
(Notes to Financial Statements)

Lease Commitments

Total rent and purchased transportation on the statement of operations relates substantially to rental of revenue equipment with drivers on a month-to-month basis. Commitments under non-cancellable operating leases, which are listed below, are primarily for terminal facilities and computer equipment. The Company must also pay real estate taxes, insurance and maintenance expenses under these leases.

Years	Lease commitments
1981	\$ 891,000
1982	774,000
1983	412,000
1984	157,000
1985	124,000
1986-1990	377,500
1991-1995	373,750
1996-2000	373,750
2001-2004	224,250
	<u>\$3,707,250</u>

The Company leases land from its principal shareholder under an agreement expiring in 2004. The lease provides for escalation of rental payments every 10 years based on independent appraisals of the land. The next appraisal will be made in 1983, and any resulting adjustment will take effect on January 1, 1984. Rental commitments for the period after 1983 are included in the table based on the present annual rental of \$74,750.

TRI-STATE MOTOR TRANSIT CO.
(Notes to Financial Statements)

Commitments

During the year, the Company entered into a purchase agreement to acquire 100 new truck tractors with delivery starting in the last quarter of 1980. At December 31, 1980, units costing approximately \$4,331,000 were still remaining to be delivered. The truck tractors are being financed through an agreement with a bank with repayment to be made in forty-eight months with interest at 1/4 of 12 above prime rate.

capitalized as part of the cost of inventories that are routinely manufactured or otherwise produced in large quantities on a repetitive basis even if the inventories have long maturation periods, such as whiskey or tobacco.

Capitalization of interest cost is required if its effect, compared with the effect of expensing as incurred, is material. If the effect is not material, capitalization is permitted, but not required. The FASB rejected the concept of capitalizing interest as a holding cost. Thus, earning assets and assets not undergoing construction or development activities do not qualify for interest capitalization.

Interest cost eligible for capitalization is limited to amounts incurred on borrowings and other obligations. The amount to be capitalized is determined by applying an interest rate to the average amount of accumulated expenditures for the asset during the construction or development period. If a specific borrowing can be associated with a qualifying asset, the rate on that borrowing should be applied to the appropriate portion of the average accumulated expenditures. For expenditures in excess of the amount associated with specific borrowings, a weighted average of the rates on other borrowings should be used. Judgment will be required in identifying the borrowings to be considered when computing the weighted average rate.

EXAMPLES Interest capitalization disclosures

ARKANSAS BEST CORPORATION (Accounting Policies Footnote)

Property, Plant and Equipment

Property, plant and equipment is recorded at cost. Beginning in 1979, the Company adopted the policy of capitalizing interest as a component of the cost of acquiring certain assets, in accordance with the provisions of Financial Accounting Standards Board (FASB) Statement No. 34. Depreciation and amortization have been provided principally by the straight-line method for financial reporting purposes and by accelerated methods for tax purposes. Gains and losses are reflected in the year of disposal. Tires and tubes acquired prior to 1980 have been expensed in the year placed in service, except those acquired on December 31, 1978 in the Navajo Freight Lines, Inc. acquisition which were expensed during 1979. Beginning in 1980, tires and tubes purchased with revenue equipment have been capitalized as a part of the cost of such equipment, with replacement tires and tubes being expensed when placed in service. This change increased income before extraordinary charge by approximately \$440,000 for 1980 (\$.13 per share).

(Long-term Debt Footnote)

Interest cost incurred totaled \$10,886,717 in 1980 and \$9,622,447 in 1979, of which \$503,558 and \$222,454, respectively, were capitalized as part of the acquisition cost of certain items of property, plant and equipment.

MCLEAN TRUCKING COMPANY (Accounting Policies Footnote)

Interest Expense

Effective with the fiscal year ended June 30, 1980, the Company has adopted a policy of capitalizing interest costs on certain assets constructed for its own use, in accordance with recently-issued Statement No. 34 by the Financial Accounting Standards Board. Previously the Company has expensed all interest in the period such costs were incurred. The change did not have a material effect on results of operations in fiscal 1980 and is not expected to have a material effect on future operations.

(Long-term Debt Footnote)

Interest and debt expense consists of the following:

	1980	1979
Revolving credit agreements	\$3,790,807	\$2,190,889
Real estate mortgages	3,293,588	3,063,494
Promissory note--refinery	550,947	300,556
Purchase of O.N.C. Freight Systems	802,500	170,000
Other interest	635,641	234,252
	<u>9,073,483</u>	<u>5,959,191</u>
Less interest capitalized	915,000	-0-
	<u>\$8,158,483</u>	<u>\$5,959,191</u>

RYDER SYSTEM, INC. (Accounting Policies Footnote)

Capitalization of Interest

The company capitalizes interest on the capital employed in the acquisition and construction of new operating facilities.

(Long-term Debt Footnote)

The amounts of interest capitalized were \$2,156,000 in 1980, \$721,000 in 1979 and \$410,000 in 1978.

SECTION J

Accountants' Reports

A company's audited financial statements must be accompanied by an "accountants' report" setting forth the general scope of the examination and the accountants' opinion as to whether the financial statements are presented in accordance with generally accepted accounting principles consistently applied in relation to the preceding reporting period. Financial statements of regulated companies are not exempt from this requirement. Section 544 of Statement on Auditing Standards (SAS) No. 1 states, in part, that:

The basic postulates and broad principles of accounting comprehended in the term generally accepted accounting principles which pertain to business enterprises in general apply also to companies whose accounting practices are prescribed by governmental regulatory authorities or commissions.... When financial statements of a regulated company are prepared in accordance with a basis of accounting prescribed by its supervisory agency or the financial reporting provisions of another agency, the independent auditor may also be requested to report on their fair presentation in conformity with such prescribed basis of accounting in presentations other than filings with the company's regulatory agency. In those circumstances, except when such reporting is recognized as appropriate by an AICPA accounting or audit guide or auditing interpretation, the auditor should use the standard form of report (see section 509.07, Reports on Audited Financial Statements), modified as appropriate (see section 509.15-.17) because of the departures from generally accepted accounting principles, and then, in an additional paragraph to the report, express an opinion on whether the financial statements are presented in conformity with the prescribed basis of accounting.

As required by new SEC reporting rules, annual shareholder reports for companies with fiscal years ending after December 15, 1980 are required to include two years of balance sheets and three years of statements of income and statements of changes in financial position. The accountants' reports for 35 of the surveyed companies covered the 1979 and 1980 balance sheets and the income statements and statements of changes in financial position for 1978, 1979, and 1980. Because four companies' year ends were prior to December 15, 1980, the accountants' reports on the income statements and statements of changes in financial position covered only two years. One accountants' report covered three years for the balance sheet, income statement and statement of changes in financial position.

Table 31 indicates the types of opinions issued by the accountants of the surveyed companies.

TABLE 31. ACCOUNTANTS' REPORTS

<u>Types of Opinions</u>	<u>No. of Surveyed Companies</u>
Unqualified opinions	34*
Opinions qualified for:	
Subject to the ultimate resolution of an existing contingency	4**
Change in the method of accounting for investment tax credits	<u>2</u>
	<u>40</u>

* One report contained a middle paragraph changing a prior year "subject to" opinion to unqualified. Two reports referred to work performed by other auditors.

** One report also referred to a restatement for a change in accounting principle.

EXAMPLE Unqualified opinion

ROADWAY EXPRESS, INC.
(Report of Independent Auditors)

To the Board of Directors
Roadway Express, Inc.
Akron, Ohio

We have examined the consolidated balance sheets of Roadway Express, Inc. and subsidiaries as of December 31, 1980 and 1979, and the related consolidated statements of income and earnings reinvested in the business and changes in financial position for each of the three years in the period ended December 31, 1980. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Roadway Express, Inc. and subsidiaries at December 31, 1980 and 1979, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1980, in conformity with generally accepted accounting principles applied on a consistent basis.

EXAMPLE Subject to outcome of uncertainty and description of a change in accounting principle

BANNER INDUSTRIES, INC.
(Report of Independent Auditors)

To the Stockholders and Board of Directors,
Banner Industries, Inc.

We have examined the consolidated balance sheets of Banner Industries, Inc. (a Delaware corporation) and Subsidiaries as of June 30, 1980 and 1979, and the related consolidated statements of income, stockholders' equity, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As more fully explained in Note 11 to the consolidated financial statements, the Motor Carrier Act of 1980 became effective on July 1, 1980. The Act provides easier access to the trucking industry by new companies and eases restrictions on expansion of services by existing carriers, which may have an impact on the future value of amounts which the Company has paid for transportation operating rights. The Company is unable at this time to predict the magnitude of the effect the Act will have on the ongoing value of its transportation operating rights and, accordingly, has made no adjustments to their carrying value in the accompanying consolidated financial statements.

(continued)

In our opinion, subject to the effect on the 1980 consolidated financial statements of the ultimate valuation of operating rights referred to in the preceding paragraph, the consolidated financial statements referred to above present fairly the financial position of Banner Industries, Inc. and Subsidiaries as of June 30, 1980 and 1979, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis subsequent to the change (with which we concur) made in 1979 in the method of accounting for tires on revenue equipment as described in Note 3 to the consolidated financial statements.

(Notes to Financial Statements)

3. Change in Accounting Principle

In the fourth quarter of fiscal 1979, the Company changed its method of accounting for non-radial tires on revenue equipment used in its transportation operations from the expensing as installed method to a method of capitalization as installed with amortization of the capitalized cost over three years. This new method of accounting was adopted to recognize that the useful life of these assets exceeds a one-year period, and has been applied retroactively to tires installed in prior years. An adjustment of \$264,000 (after reduction for income taxes of \$234,000) to apply retroactively the new method is included in 1979 net income.

ii. Transportation Operating Rights

On July 1, 1980 the Motor Carrier Act of 1980 ("Act") became effective. Due to the provisions of the Act which provide easier access to the trucking industry by new companies and ease restrictions on expansion of services by existing carriers, the industry, including the Company, is currently reviewing the amounts at which operating rights are carried in financial statements of motor carriers. Operating rights of the Company's Commercial Lovelace Motor Freight subsidiary were recorded as an asset in the Company's June 30, 1980 consolidated balance sheet at \$5,931,000.

The Company is unable at this time to predict the magnitude of the effect the Act will have on the ongoing value of its operating rights. The provisions of the Act will not impair the Company's ability to continue to compete effectively on its motor carrier routes and any write-down of the carrying amount of its operating rights would relate to a perceived reduction in the resale value of such rights or to compliance with changes in general industry accounting practice.

If the Company determines it appropriate to write down the carrying value of its operating rights in a future period, it will result in a charge to earnings which would be treated as an extraordinary item. Based upon the carrying value in the accompanying consolidated balance sheet as of June 30, 1980, the maximum amount of such a writeoff would be \$5,931,000 (\$1.47 per share) without reflection of a tax benefit. The Company strongly believes that a tax deduction should be allowed for such a writeoff.

EXAMPLE Subject to outcome of uncertainty

MCLEAN TRUCKING COMPANY (Report of Independent Auditors)

To the Board of Directors
McLean Trucking Company
Winston-Salem, North Carolina

We have examined the consolidated balance sheets of McLean Trucking Company and subsidiaries as of June 30, 1980 and 1979, and the related statements of consolidated operations and retained earnings and changes in consolidated financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note 13 of Notes to Consolidated Financial Statements, the Motor Carrier Act of 1980 was signed into law July 1, 1980. The Act liberalizes the procedures for acquiring operating rights and may have an impact on the future value of amounts which the Company has paid for operating rights. The Company is unable to predict the ultimate effect that the Act may have on the carrying value of its franchises and operating rights. Accordingly, the Company has made no provision for this matter in its financial statements.

In our opinion, subject to the effects, if any, of the ultimate valuation of operating rights referred to in the preceding paragraph, the consolidated financial statements referred to above present fairly the consolidated financial position of McLean Trucking Company and subsidiaries at June 30, 1980 and 1979, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

(Notes to Financial Statements)

Note 13--Operating Rights

On July 1, 1980, the Motor Carrier Act of 1980 was signed into law. The Act liberalizes the procedures for acquiring operating rights. The ultimate effect of these liberalized procedures on the carrying value of the Company's operating rights is not determinable at this date. However, management does not presently believe that the Act has materially impaired the carrying value of the Company's operating rights, but the Act may have an impact on the future value of such amounts. The Company and the industry are presently evaluating the impact of this Act on the carrying value of operating rights. This evaluation could result in a significant reduction in the period over which the operating rights are being amortized or in a partial or complete write-off of the value presently assigned to operating rights. The Company is unable to predict the outcome of this evaluation and, accordingly, has made no provision for this matter in its financial statements.

EXAMPLE Change in accounting principle

LYNDEN TRANSPORT, INC.
(Report of Independent Auditors)

Board of Directors
Lynden Transport, Inc.
Seattle, Washington

We have examined the consolidated balance sheets of Lynden Transport, Inc., and subsidiaries as of December 31, 1980 and 1979 and the related statements of net earnings and retained earnings, and changes in financial position for each of the three years in the period ended December 31, 1980, and the schedules listed at Item 11 (a) 2. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Lynden Transport, Inc., and subsidiaries as of December 31, 1980 and 1979, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1980, in conformity with generally accepted accounting principles consistently applied during the periods except for the change, with which we concur, in the method of accounting for investment tax credit as described in Note C to the consolidated financial statements. Further, it is our opinion that the schedules previously referred to present fairly the information therein set forth.

(Notes to Financial Statements)

Change in accounting

During the year ended December 31, 1980, the Company changed its method of accounting for investment tax credit. The Company had deferred the credit and amortized it over the lives of the related assets, but under the new method, the credit is recorded as a reduction in taxes on income in the year available. The new method is the predominant method used in the industry and will present the Company's results more comparably with others in the industry. The effect of the change for the year ended December 31, 1980, was to increase earnings before extraordinary item by \$155,000 (\$.36 per share). This change would not have a material effect on the Company's results of operations for 1979 and 1978.

SECTION K

Reporting to SEC on Form 10-K

Major changes in reporting rules

During 1980, the SEC issued several releases affecting companies that are required to file annual reports on Form 10-K. These releases advance the Commission's goal of achieving an integrated and simplified disclosure system. The rules are effective for companies with fiscal years ended after December 15, 1980. The following is a summary of the major changes.

Annual Shareholder Report and Form 10-K Companies that are required to comply with the SEC's proxy rules must prepare consolidated financial statements in annual shareholder reports in accordance with Regulation S-X. The SEC did not adopt a proposal to require portions of the annual shareholder report to be incorporated by reference into Form 10-K.

The annual shareholder report and Form 10-K are to include a table of "Selected Financial Data" for five years, which replaced the summary of operations. The table lists such income statement and balance sheet amounts as revenues, income from continuing operations, dividends, long-term obligations and total assets.

Management's discussion and analysis is to focus on financial condition as well as the income statement, and it must address liquidity, sources of capital, and results of operations. To encourage more meaningful discussion, the SEC has deleted the percentage tests and replaced them with general guidelines. Furthermore, all companies, including those not subject to FASB Statement No. 33, must discuss the impact of inflation.

Form 10-K must be signed by the company's principal executive, financial, and accounting officers as well as a majority of the board of directors.

Uniform Financial Statement Requirements In annual shareholder reports and most SEC filings, income statements and statements of changes in financial position are required for three years and balance sheets for two years. Industry segment information was reduced from five to three years, but differences between the FASB and SEC requirements remain. However, segment data may be presented either in the financial statements or description of business and cross-referenced.

Regulation S-X "Compliance notes"--footnote disclosures formerly required in Form 10-K and other SEC filings but not in annual shareholder reports--have been eliminated. Some of the disclosures are included in shareholder reports and thus become GAAP for public companies. A few are moved to the Form 10-K schedules (e.g., short-term borrowing information and weighted average interest rates), and some are eliminated altogether.

Among the Regulation S-X disclosures required in annual reports are:

Reconciliation of tax expense to statutory rates, details of the deferred portions of tax provisions, and foreign and domestic pretax income.

Compensating balances and unused lines of credit information.

Debt maturities for the next five years.

The SEC deferred its proposed changes to the property, plant and equipment schedules. However, the Regulation S-X requirement for information on depreciation methods and lives has been moved from a footnote to the schedules. The SEC expects to issue a revised proposal for major changes to these schedules.

A number of schedules have been deleted: Intangible Assets, Preoperating Expenses and Similar Deferrals; Accumulated Depreciation and Amortization of Intangible Assets; Bonds, Mortgages and Similar Debt; Capital Shares; and Warrants or Rights.

Financial schedules

Financial schedules are required by Article 5 of Regulation S-X. These schedules provide detailed information underlying certain captions in the financial statements. Article 12 of Regulation S-X prescribes the form and content of these schedules. Our publication "SEC Annual Reports" (E&W No. 40125) provides guidance for completing such schedules and includes examples of completed schedules.

Company Names and Index of Excerpts

Following are the names of the 40 motor carrier companies whose 1980 annual reports were included in this survey. The company names are those under which the annual report was issued. Pages on which excerpts from the company's annual report may be found are indicated. For ease of reference the word "the" has been eliminated in all cases in which it is part of the company's name.

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